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HATOYAMA'S BIG CHANCE

Can the DPJ Bring
Democracy to Japan?

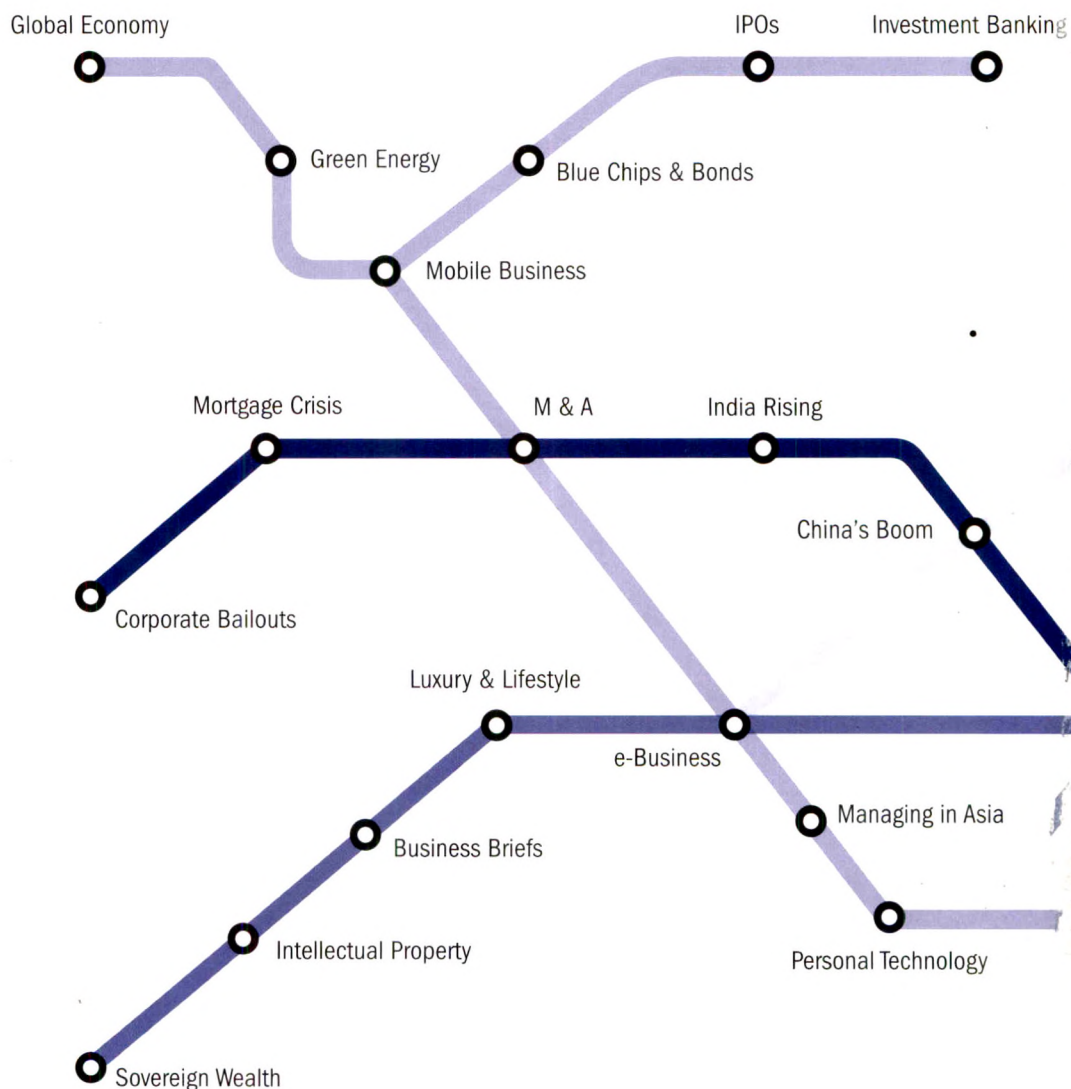
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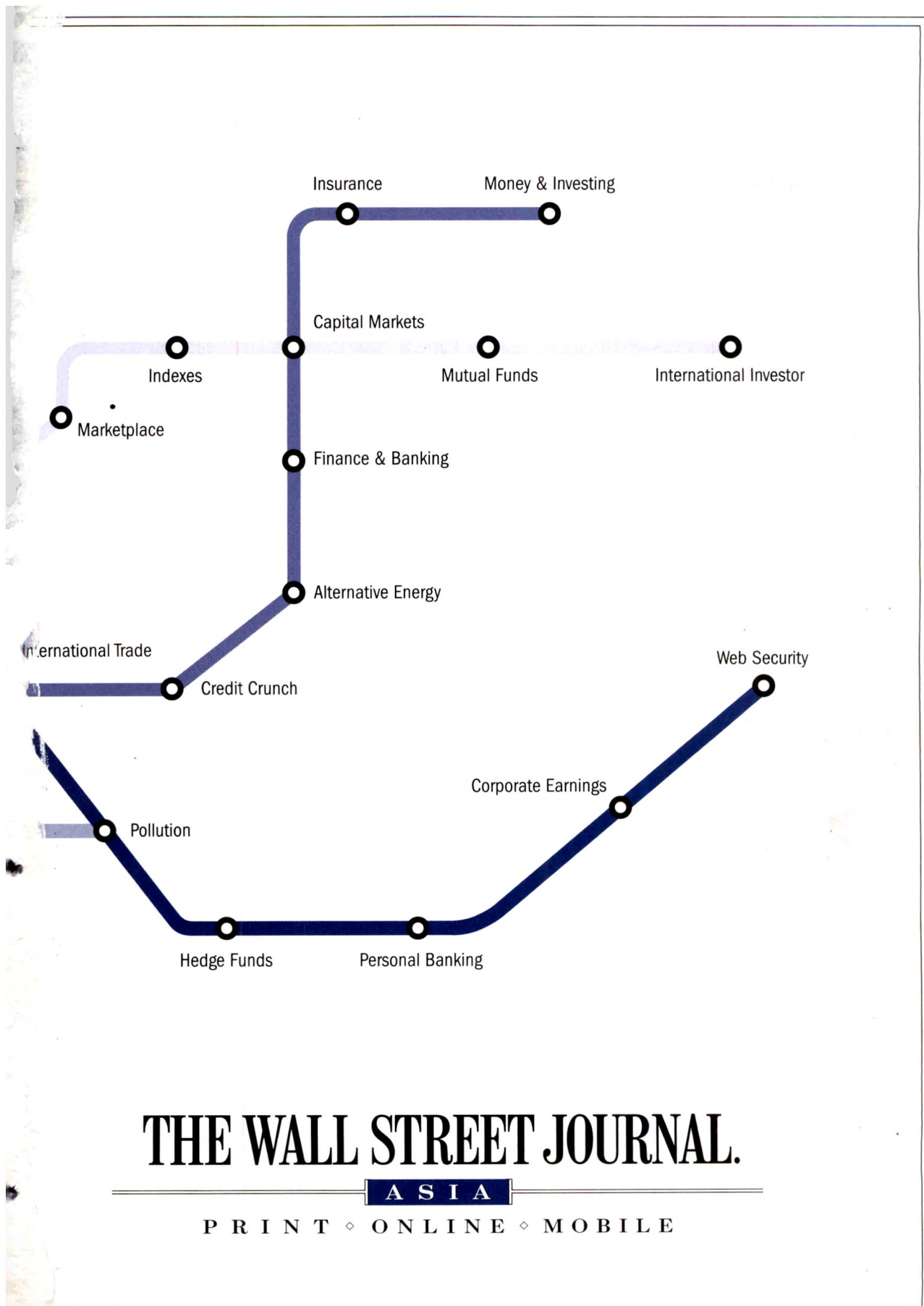
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FAR EASTERN ECONOMIC REVIEW



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SOMETIMES A CHANGE in society has to germinate for many years before it finally comes to fruition. That is certainly the case in Japan, where the Liberal Democratic Party has been slowly imploding for the last two decades. The upcoming general election offers the best chance since the mid-1950s for a peaceful transfer of power to an opposition party in both houses of parliament. While Japanese government contained elements of liberal democracy, power rested within a closed system of LDP factions. That is due to change.

However, as Tobias Harris and Colum Murphy write in this issue, for the Democratic Party of Japan winning an election is just the first step toward reforming Japan's system of governance. After all, the DPJ is winning votes by pandering to some of the same constituencies the LDP always has. Its leader Yukio Hatoyama may be making the right noises about reform now, but the forces of inertia will begin pressuring him to go along the moment he enters office.

Masaru Tamamoto contributes a fascinating analysis showing how deeply rooted is the societal and political sclerosis that has descended on Japan in the post-war era as it became industrialized and prosperous. A system predicated on reliance on the U.S. for security, group-think in the government and corporate sectors, and passivity in education inevitably fails to prepare Japanese for global competition. Having caught up with the world's most advanced societies, Japan needs innovation and leadership to address its unique domestic problems.

Elsewhere the summer is bringing instability and dissatisfaction. Former Afghan Interior Minister Ali Jalali describes the worsening security situation as his country approaches Aug. 20 elections. Drift and complacency in Kabul and Washington have allowed the Taliban to regroup as a serious fighting force. The new government will need to better coordinate nation-building with NATO partners or face the specter of unrest. Hekmat Karzai and Hyder Akbar, scholars based in Kabul, set out priorities for the incoming administration to avert disaster.

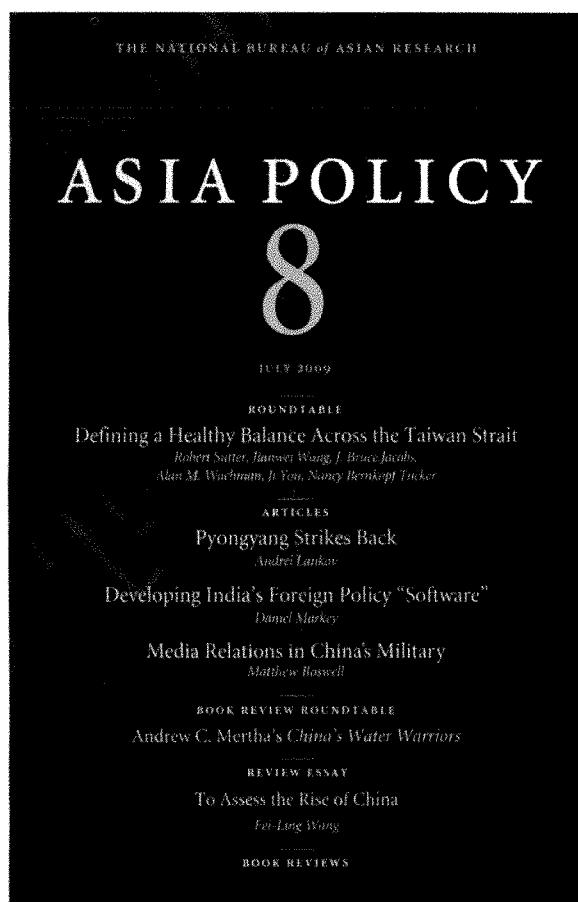
A tragedy long in the making is already upon us in Xinjiang, as Beijing's hardline policies of discrimination against the Uighur minority have led to an outburst of violence by people who feel they have little to lose. As we went to press, the riots were still flaring up as both sides spread rumors of atrocities and sought revenge. The rapid spread of information, real or false, is the spark to the dry tinder of resentment. But while China has been preparing its forces to suppress the riots, it has yet to acknowledge the legitimate grievance of its minorities.

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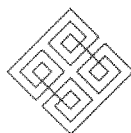


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LETTERS

On King and Country

Responses to "Populism Erodes Thailand's Old Order," June 2009

THIS IS A very enlightening assessment of the political situation in Thailand. In most of the world, the power is with the "haves," and the "have nots" have little say. It is not just "democracy" (Western-style) that will change that. In order for there to be peace in Thailand, the Reds and the Yellows must get together and promote gradual reform such that the "elites" share more of the country's wealth with the people.

*Jeff Taft-Dick
via FEER.com*

I AM CONCERNED by the image of our king that appeared on the front cover of your June issue. Thai people have very high respect for our king and would never publish a cartoon image of him. I know that media is free, but it would be better if the media could respect our feelings too.

*Hataiporn Suwanmethajarn
Bangkok, Thailand*

Bubble, Bubble!

Responses to "China's Real-Estate Riddle," posted June 8, 2009

WASN'T THE JAPANESE boom also the result of collusion between government, banks and developers? Aren't the long-term values of investments ultimately linked to the

income they generate? The net migration of transient workers has now reversed direction. It sounds as if prices of new dwellings are being based on other new dwelling sales, so the whole price structure is artificially maintained by the developers' agents. All that's required for a collapse is a little panic from investors who can't make their repayments. A market that is driven by such a high ratio of investors will not be supported by demand from owner-occupiers.

*James Castaway
via FEER.com*

MR. CASTAWAY'S JAPAN comparison is interesting. Japanese land values increased at an average of about 30% per year for nearly 30 years, in a near zero-inflation environment. The price of the land exceeded the rental value by an incredible multiple. There was a clear bubble long before it burst, but the market seemed to defy gravity for well more than a decade.

It is impossible to predict the timing or the "tipping point," but it is inevitable in a situation like this. Rather than a sudden decrease in value, it could simply be a very slow decline in value, which is closer to what happened in Japan. Now, 20 years after the tipping point in Japan, the average land price is 20% of what it was in 1989.

Economists believe they know the answer to the riddle. The "equilibrium price" ends up being the net present value of the rents that the unit is expected to produce, adjusted for the expected maintenance costs, insurance costs and tax costs or benefits. But even if you could know the final equilibrium price, you cannot predict accurately when that price will come.

*Dan Johnson
via FEER.com*

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The Bard of Berkeley

A conversation with former U.S. Poet Laureate Robert Hass about *haiku*, his concerns regarding projects like China's Three Gorges Dam and the responsibilities of writers.

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The Pandemic That Isn't

The World Health Organization may have increased the threat of the H1N1 virus—and other more virulent viruses down the road—by labeling it a pandemic.

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China Continues to See High Execution Numbers

A podcast discussion of China's high rate of executions and the future of the mainland's criminal judicial system with Chinese University of Hong Kong Professor Eva Pils.

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Making Bank Mergers Work in Taiwan

Taiwan's banks are feeling the strain of global recession. But the downturn is shaping up as a watershed event for Taiwan's NT\$30 trillion banking sector.

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Phnom Penh's Eviction Epidemic

Cambodia's poor are being displaced by developers at an alarming rate. Activists are calling it the largest epidemic of evictions since the Khmer Rouge emptied Phnom Penh in 1975.

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China's Real-Estate Riddle

With average housing prices tripling over the past five years, is China's booming real-estate market about to go bust? Or will it plateau and reach new heights?

Patrick Chovanec, JUNE 8

Can the DPJ Bring Democracy to Japan?

After six decades of one-party rule, Japanese voters are ready to take a historic gamble and create a two-party system. But can the Democratic Party of Japan overcome other forces of inertia?

by Tobias Harris and Colum Murphy

ON A SWELTERING afternoon in June, the rice fields outside the small town of Omagari in Japan's northern Akita prefecture are eerily deserted. Only the voice of Kimiko Kyono belting out from the speakers atop her orange Nissan breaks the silence. "*Kon-nichiwa!*" she exclaims to the open fields. "This is Kimiko Kyono of the Democratic Party of Japan!" Finally she spots a farmer: "Over there!" A campaign aide drives the car through the field in hot pursuit of the lone voter.

Ms. Kyono, one of the DPJ's potential candidates in parliamentary elections likely to be called at the beginning of August, has an unenviable task. She is trying to win over risk-averse voters person by person to the opposition party formed in 1998. Yet this youthful looking mother of four is not fazed. "Last time I lost by 30,000 votes," she says. "This time I hope to win or at least close the gap."

A confluence of factors means Ms. Kyo-

no might get her wish. While Kazuyasu Kurokawa, the 52-year-old farmer she managed to corner, is noncommittal about his voting plans, others are forthrightly supportive. Teruko Sasaki, 70, is fed up with the status quo. "Things have not gotten better around here," she says. "I think it is time for a change."

The incumbent Liberal Democratic Party has been in power for almost six decades, apart from a 10-month period in the early 1990s, and discontent with its performance is at an all-time high. Chronic disillusionment with LDP's ineptitude and the increasingly severe economic conditions of recent years mean that, even here in the conservative heartland and LDP stronghold, more voters like Ms. Sasaki are contemplating giving the DPJ a shot at ruling the country.

~ Mr. Harris is a doctoral candidate in political science at the Massachusetts Institute of Technology. He is the author of *Observing Japan* (www.observingjapan.com), a blog on Japanese politics. Mr. Murphy is deputy editor of the REVIEW.

The DPJ under current leader Yukio Hatoyama promises that it would use an election mandate to bring sweeping changes to Japan. The party has devised a set of policies aimed at cushioning citizens from harsh economic realities. Of greater long-term significance, the DPJ has ambitions to overhaul the country's governing structure, which under the LDP has rested on opaque internal party decision-making processes and underhanded cooperation between the party and the bureaucracy. Instead, the DPJ promises government that is more efficient, transparent and accountable. In short, policy making in Asia's oldest democracy would finally move out of the proverbial smoke-filled back rooms.

Political transformation is already underway. Japan now has, for the first time in decades, a viable opposition party in the DPJ, which earned the trust of the public when it became the largest party in the upper house in 2007. A strong mandate at the polls could bring an end to the political paralysis that has hampered the revitalization of Japan's economy and society.

Down and Out

MS. KYONO'S HOME prefecture, Akita, is in many ways at the front line of Japan's decline, a microcosm of many of the problems that bedevil the country. It is an appropriate laboratory for DPJ's policies related to demographic issues, including the elderly and farmers. Across a host of indicators, the prefecture—together with neighboring Aomori prefecture and the southern island prefecture of Okinawa—finds itself at the bottom of the rankings. Mi-



chael Lacktorin, professor of economics at Akita International University, says the No. 1 problem facing the prefecture is demographics. There are around 1.1 million people in Akita, but this is declining by 12,000 people, or around 1%, per year. Half of the decline is from death, half from "social movement" by job seekers.

Japan's aging society is on full display in Akita. On a recent morning in June, most customers at a large supermarket in Omagari were elderly. In October 2007, 28% of Akita's population was over the age of 65, close to six percentage points higher than the national average. Average per capita income in the prefecture for fiscal year 2005 was around 2.3 million yen (\$24,100), well below the national level of 3 million yen. Agriculture plays an important role in the prefecture's economy, and here, as in other parts of Japan, farmers are struggling. The percentage of those engaged in full-time farming is dwindling, and more and more rural dwellers are relying on the government sector for employment.

Of course, the latest economic crisis has exacerbated these long-standing social problems. While there are some signs of a recovery, demand for Japanese exports fell sharply in late 2008 and in the first quarter of 2009, causing a sharp economic contraction—GDP fell 3.5% in the fiscal year that ended March 31, a record fall since records began in 1955. The contraction has put pressure on the Japanese workforce, as unemployment rose to 5.2% in May. There are few signs that foreign demand will recover quickly, reinforcing the need for measures to stimulate domestic demand, despite having already budgeted roughly 2% of Japan's GDP for econom-

ic stimulus since autumn 2008. Meanwhile, Japan's colossal national debt continues to grow and the goal of a balanced budget pushed back due to the Aso government's antirecession stimulus measures, while social-security spending is soaring as the population ages.

In short, the economic crisis has exposed just how illusory the Koizumi boom years were, based as they were on healthy demand for Japanese goods in the United States and China and on the growing use of temporary and other irregular workers by Japanese businesses. The challenge for Japan's government remains finding the right balance between public demands for social protection, and the need for structural reform and fiscal restraint. The DPJ believes it can strike that balance.

Exit LDP, Enter DPJ

THE LITANY OF problems facing Japan has given the DPJ plenty of fodder for devising policies with a clear appeal to the much suffering Japanese, and even given some of the most diehard supporters of the LDP cause to stop and reconsider. That said, it is hard to differentiate between the LDP and the DPJ on the basis of policies alone, especially since many measures seem to pander to the same constituencies, for example the farmers. Perhaps this should not surprise us—Mr. Hatoyama and former party leader and party founder Ichiro Ozawa are both former LDP members.

Even so, the DPJ has done a better job at shaping its policies into a somewhat coherent “manifesto.” At the party's modest headquarters in Tokyo's Nagatacho district, former DPJ policy chief Yukio Edano explained that the most important goal of the party is to expand Japan's social-safety net, and many of these policies are specifically aimed at alleviating the two main problems facing the rural areas—the aging population and declining agriculture. That

includes addressing Japan's faulty pensions system—antiquated in its management, Byzantine in its organization, and underfunded given growing liabilities—by creating a model based on Sweden's and supported by the whole of consumption-tax revenue at the current rate of 5%. Mr. Edano says the DPJ also plans to increase spending on health and nursing care. The party plans to introduce an individual household income-support system to make Japanese farmers feel more secure about engaging in agriculture. Another sweetener is the launch of a per capita child allowance of 26,000 yen per child per month.

This is an expensive shopping list, but can be financed partially by the DPJ's plan to eliminate wasteful government spending, says Mr. Edano. The party has identified savings of around \$104 billion that it plans to redirect to other areas, including into the country's pension system. An increase in consumption tax from the current 5% will happen, but not for “another five or 10 years,” says Mr. Edano.

When it comes to economic policies, however, details are vague. While there are references to revitalizing small- and medium-sized enterprises through a “SME Charter,” the party falls short on specifics. It, like the LDP, has been unable to outline a plan to fix Japan's finances and it seems that it doesn't quite know how to revitalize regional economies such as Akita's. The DPJ's manifesto contains a lot of little ideas animated by the vision of a “secure society,” but nothing terribly concrete on how to restore corporate Japan back to its former glory. By appealing to anxiety about the country's mismanaged pension schemes and inadequate health-care system for the elderly, especially in remote areas, the DPJ is hoping to expand its support base. But it could still botch the campaign. “If a golfer reaches the green, then he should be able to putt his shot,” Mr. Edano says. “But the DPJ is still at the tee and is using a driver. At this

stage, even top professionals can hit a shot out of bounds."

SHOULD THE DPJ manage to come to power, it will not be on the strength of its policies alone. The party's success so far is clearly due to the LDP's unpopularity. The ruling party has been on the decline ever since it won a historic victory in the 2005 general election. Under the leadership of then-Prime Minister Junichiro Koizumi, the LDP, with the help of Komeito, its coalition partner, secured an unprecedented supermajority in Japan's House of Representatives on the basis of Mr. Koizumi's personal popularity and his campaign to privatize Japan Post.

The 2005 election seemed like a turning point for Japanese politics, the apotheosis of Mr. Koizumi's crusade to destroy the "old" LDP, smash the bureaucracy and institute reforms to liberalize the economy. But within a year Mr. Koizumi was out of office and his successor, Shinzo Abe, was less interested in economic reform than pursuing his dream of making Japan a "normal" country through revision of the Constitution and reform of education curricula—issues that did not resonate with the public.

What followed is all too familiar: the readmission of ousted postal rebels to the LDP, the Abe government's mishandling of the 2007 pensions crisis followed by the DPJ's victory in that year's upper house elections, the substitution of Yasuo Fukuda for Mr. Abe, and then a year later, the substitution of the incumbent Prime Minister Taro Aso for Mr. Fukuda. It has been four years of scandals, of policy decisions avoided, of reforms watered down or scrapped entirely—and of persistently low public approval numbers. Add the failures of the past four years to the LDP's record over its nearly unbroken run of 55 years in power and it seems reasonable that the upcoming general election will result in a historic defeat for the LDP and the birth of a DPJ-led government.

Of course until the election is held it is possible that the LDP—with a history of pulling out miraculous victories—will survive. A scandal involving former DPJ leader Mr. Ozawa in the spring led to a slight uptick in the Aso government's approval ratings, but Mr. Ozawa's resignation halted the DPJ's decline and has effectively triggered a terminal crisis in the LDP.

As of early July, Mr. Aso continues to face plummeting poll results, open calls for his resignation, and demands that he move up the party leadership election scheduled for September to give the party a chance to choose a new leader in advance of the general election. Meanwhile, Mr. Ozawa is still a driving force in the DPJ. "If the election were held today, we would win," a party strategist said in an interview with the *REVIEW* in June. The polls, though frequently unreliable, point to DPJ carrying the day. "Barring some cataclysmic event" the DPJ should win a plurality in the coming election, says political analyst Jun Okumura.

Consolidating Power

GETTING ELECTED IS only the beginning of the party's challenges. If it is going to deliver on its promises, the DPJ will need to redefine how government works in Japan. If a change of government is to have lasting significance, the DPJ must revolutionize Japanese democracy. If the DPJ merely replicates the LDP's bad practices, not only will it be ineffective as a ruling party but it will likely deepen the public's disillusionment with the political system. A DPJ government's task will be to transform what academic Aurelia George Mulgan has called Japan's "Un-Westminster" system into a proper Westminster parliamentary democracy, with power concentrated in the cabinet.

LDP rule has long been characterized by a sharp division between cabinet and

ruling party, with the LDP's formal and informal policy-making organs having an established role in the policy-making process that enable LDP politicians outside government to wield a veto over the sitting government's agenda. At the same time, the bureaucracy has had an outsized role in policy making and as a whole wields political power unmatched among developed democracies. It has been a full-fledged player in a "triangular" struggle for power with the LDP and the cabinet.

The result of this ongoing struggle has been paralysis, particularly after the bursting of the economic "bubble" in the early 1990s, as politicians and bureaucrats struggled to defend their prerogatives and budget shares while various prime ministers attempted to use a newly empowered cabinet office to undermine both LDP and bureaucracy and impose a vision for governing. The Koizumi government was at once a high water mark for this struggle and for the strength of the prime minister and the cabinet in the conflict; the three years since Mr. Koizumi left office have witnessed a steady decline in the ability of the prime minister to corral party members and bureaucrats. Rather than building a Westminster system, Mr. Koizumi strengthened the position of the cabinet within the tripartite governing system without fundamentally transforming the system.

The DPJ seems aware that in order to implement policy it must transform the policy-making process. Naoto Kan, the DPJ's acting president, visited the United Kingdom in early June to study the relationships between cabinet and ruling party and cabinet and bureaucracy in the British system of government. After meeting with senior Labour and Conservative politicians, Mr. Kan returned to Japan impressed by how Britain has enforced the political neutrality of the bureaucracy, ensuring the supremacy of cabinet over ruling party and civil service. In an article in the July issue of the

monthly Chuo Koron, Mr. Kan outlines a model for what the DPJ hopes to achieve in constructing a "parliamentary cabinet system" (in contrast to the LDP's "bureaucratic cabinet system").

Describing LDP rule, Mr. Kan argues that the LDP, due to the perpetual gap between cabinet and party, delegated far too much to the bureaucracy, and as a result the government has struggled to resolve the cluster of social and economic problems that have ensnared Japan. According to Mr. Kan, the DPJ will unify ruling party and government to avoid the acrimony that has often characterized the relationship between the LDP and LDP-supported cabinets. To prevent party leaders from being in a position to undermine the government, the DPJ plans to include the party's secretary-general and policy research council chair in the cabinet, with the former responsible for legislative affairs and the latter assuming the critical post of chief cabinet secretary. The DPJ will prevent backbenchers from sidestepping the cabinet to work with bureaucrats through the ruling party's policy research council to draft legislation, and will deny the party's senior leaders outside of government a veto over policy, a right currently possessed by the LDP's general council, which has the power to decide whether a policy will go to a cabinet vote. Indeed, the DPJ abandoned the model of a general council early in its existence and replaced it with a shadow cabinet.

Second, the DPJ aims to strip the bureaucracy of its budgeting authority. Mieko Nakabayashi, a DPJ candidate from Kanagawa prefecture, says Japan's current opaque budgeting process is "undemocratic." "You cannot hide Japan's budget and economic situation forever," says Ms. Nakabayashi, who worked for an extended period in the U.S. Senate Budget Committee. "Hiding things from people has reached saturation point." Here too, the DPJ will

not be starting from scratch: A round of administrative reforms early in the decade created the Council for Economic and Fiscal Policy, an advisory council attached to the cabinet that has played an important role in macrobudgeting. But as with many reforms undertaken under LDP rule, the creation of the council was inadequate for shifting responsibility for budgeting from the finance ministry's budget bureau, and the requesting bureaus in the government's ministries and agencies, to elected cabinet officials.

In effect, the DPJ aspires to restore the Japanese Constitution, which designates the cabinet as the supreme executive body responsible for administering the law and preparing budgets, and the Diet as the "sole law-making organ." The goal of these proposals is to create a policy-making process that starts at the top, with the prime minister and the cabinet, and flows down to line bureaucrats. The government, supported by its parliamentary majority, will establish policy-making priorities and compile budgets, the Diet in cooperation with the cabinet will prepare and pass legislation, and the bureaucracy will implement the decisions of its political masters.

Staying in Power

THIS MODEL IS clearly an ideal type: The degree to which a DPJ-led government realizes it will depend on the political abilities of the prime minister and his cabinet ministers. Whether the DPJ's leaders are sufficiently capable remains to be seen.

One factor working in the party's favor is that it should have a mandate for political reform. A poll conducted in March by the Yomiuri Shimbun, Japan's largest daily, found that 74% of respondents did not trust bureaucrats in Tokyo, suggesting that the DPJ will have the public on its side in implementing its plans. At the same time, however, the DPJ must not allow pop-

ulist, antibureaucrat enthusiasm lead it to promise more reform than it can deliver. Already some of its policies smack of populism. The party's policies for protecting farmer income, for example, will do nothing to promote competitiveness of the sector against foreign producers.

The DPJ will be operating in an environment shaped by an active news media, a public quick to voice its disapproval, an opposition party that will use every tool at its disposal to stymie the government and a bureaucracy reluctant to surrender its privileges. These obstacles do not mean reform is impossible, but they mean the DPJ must pick its battles carefully, seek allies wherever possible and moderate its rhetoric in order to maximize its freedom of action.

The DPJ may already be backing away from more extreme criticism of the bureaucracy, with Mr. Kan's acknowledging that there are many talented bureaucrats and that the party recognizes it will need their cooperation if it is to govern effectively. "The DPJ is unlikely to depart from dependence on the bureaucracy," Takao Toshi-kawa, editor-in-chief of the biweekly Tokyo Insideline, says, describing the party's plan to appoint 100 political appointees as "unrealistic." "The DPJ has no such manpower." Given these constraints, the DPJ is right to focus on how to concentrate power in the cabinet. Such reforms will require less in the way of legislation and allow more effective use of power by the DPJ's leaders.

More challenging will be the DPJ's desire to redistribute power from Tokyo to prefectures and localities. In his article, Mr. Kan lists decentralizing Japan as the complement to consolidating power in the cabinet, but it is unclear what decentralization means to the DPJ and how it will go about achieving it. There is more than an echo of former British Prime Minister Tony Blair's push for devolution to Scotland and Wales during his first term. Whatever form devolution Japanese-style takes, expect a pro-

tracted fight among prefectural and local governments, the ruling and opposition parties in Tokyo, the bureaucracy (which is the target of decentralization), interest groups, and at some level the public at large. In an interview, Aomori governor Shingo Mimura told the REVIEW that, in his view, any decentralization of political power must be accompanied with decentralization of budgeting power.

Considering that any sort of radical decentralization can only proceed after the DPJ has effectively concentrated power in the cabinet, stressing decentralization offers more than any government could achieve for the foreseeable future. And given the policy challenges that will face the new government, it is questionable that the first thing that it should do upon realizing administrative centralization is transfer power and money to local governments.

If the DPJ can implement its plans for administrative reform—and it's a big if—it could succeed in regime change. It will have created a “normal” parliamentary system, having transformed Japanese governance from what political scientist Jun Iio has called the LDP's “purposeless” government to a government that can set clear policy goals and be judged by its success in achieving those goals. But regime change will have little meaning for the Japanese people until the government uses its new authority to fix economic and social problems. And that will ultimately depend on the ability of the leaders of the DPJ to make hard decisions about how to fix the budget while putting society and economy on sounder footing, decisions that the LDP has been unable to make. If the new government fails to deliver despite administrative reform, it will have no excuses for inaction—and will risk falling from power.

Another element influencing the longevity of a DPJ-led government is the degree of unity the party exhibits. Critics say the party is deeply divided in many policy ar-

eas, for example foreign policy, causing some to predict the DPJ eventually will crumble. In its place, a new party that combines elements of DPJ and LDP could form. “In four or five years, you could get a reconstituted one-party system,” says Malcolm Cook, program director for East Asia at the Lowy Institute for International Policy in Sydney. In the meantime, Mr. Cook expects to see even more “political paralysis” in Japan. “It's not an optimistic view.”

As Japan's general election approaches, it is increasingly clear that the public is willing to take a chance on the DPJ. Shigeji Sasaki, a 58-year-old hotel worker in Omagari, Akita, says he plans to change his vote to the DPJ from the LDP so that power can be transferred over smoothly “like the American system.” He says he has many demands he would like to see the DPJ government fulfill. “But in general,” he said, “I want a party that can lead Japan.”

The LDP has progressively lost the ability to govern its own members, has made far too little progress addressing public-policy concerns, and has failed to provide even an outline of a policy vision. If the 2009 election is a referendum on LDP rule, the LDP will be toppled. Even if the LDP wins, however, it will still be a monumental election, because an LDP government would be even more ineffective than before the election, as it would likely be deprived of the supermajority in the lower house that is its trump card in battle with the DPJ-controlled upper house. A LDP victory would likely lead to a grand coalition or a political realignment, significant outcomes in their own right.

The long-term importance of the 2009 general election will be whether a DPJ victory marks the beginning of a new parliamentary democracy in Japan and whether DPJ politicians such as Ms. Kyono and Ms. Nakabayashi—if elected—can build a new system of power that lays the foundations for future prosperity. ■



Will Japan Ever Grow Up?

by Masaru Tamamoto

JAPAN STANDS ON the threshold of a change that could signal a step toward political maturity. After six decades of being ruled by the Liberal Democratic Party, voters in the upcoming general election are expected to give a mandate to the opposition Democratic Party of Japan. While this possibility is certainly an encouraging sign that Japanese people are ready for open competition over national policies, what's really remarkable is that it has taken so long. And indeed there is still a long way to go for Japan to become a "normal nation," in the words of opposition politician Ichiro Ozawa. Japan remains in many ways infantilized.

It's easy to forget how unusual Japan is in many ways, both politically and culturally. This is, after all, a country that is largely content to exist under the wing of a foreign protector, and one in which Tokyo University-trained bureaucrats have long enjoyed unquestioned authority. It's also a country where initiative is stifled in the workplace, and a worrying number of children never leave home or have the chance to compete with other children.

There are some signs that Japan is being forced to change, but this change is coming excruciatingly slowly.

Child-Adults

TO UNDERSTAND THE sickness permeating Japanese society in recent decades, one must start with childhood. The Japanese used to like children and until recently would indulge the little ones. But that has changed. A Tokyo court recently ruled that voices of children gathered around a park fountain constitute noise pollution and ordered the fountain shut off. Society now widely constrains children, robbing them of their natural playfulness. In so many parks, there are signs written in the language of children and with illustrations, for those too young to read, prohibiting playing with balls. Teachers instruct children in schoolyards to keep the noise down to prevent neighbors from complaining. There is growing intolerance of

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children being children.

The distinction between preparing a child for adulthood and turning a child into an adult has been lost. A well-behaved child is a manageable child, one who is quiet, mild, obedient and passive. The Japanese word for such attributes, *otonashii*, is the adjective form of the noun adult. Passivity is understood to be the distinguishing mark of adulthood and maturity.

The adult world is wary of children, seeing in them the potential for nuisance and disorder. Whether it is a cause or effect, the number of children under 15 years of age has been shrinking continuously for about three decades. Japan registers one of the world's lowest birth rates, and given present trends, the country's population will decline to 95 million from 130 million in less than 50 years. With the burden of aging, social security and medical care are already in an insoluble mess. Still, the authorities have shown no sense of urgency in finding a solution. Meanwhile the number of unmarried adults living in their parents' homes is growing, with one-third of those between the ages of 20 and 39 choosing to be "parasite singles."

The Japanese definition of adulthood is highly specific: A grown-up is one who is accepted as a formal member by society. In liberal, more individualistic societies, maturity connotes the cultivation of independence, while in communitarian Japan, maturity depends entirely on social recognition. One study found that a very young Japanese child is likely to come to the aid of a friend being bullied, while an older child tends to turn a blind eye. This is counterintuitive, for growing up supposedly entails the development of the sense of right and wrong, of social responsibility. Yet the older child here is relieved that he is not the bully's victim and does not intervene for fear of being turned into the next victim.

Absenteeism at school is a recognized social problem in many countries, usually

among poor and minority communities. In harmony-stricken Japan, however, the problem is everywhere. Bullying is its major cause and even drives some to suicide. But there are usually no identifiable bullies to be disciplined. What the Japanese call bullying, *ijime*, is really ostracism. The problem is awkward, because society itself is the problem; in the classroom it is not uncommon to find the teacher participating in ostracism.

Passivity is the defense against certain humiliation and misery. This passivity is not withdrawal but its opposite. It demands active participation in society simply to remain an ordinary member—to be seen to show consideration even if not really concerned. It requires sophisticated communication skills in order to cover up conflict. To question general consent, to ask why, is the sign of a child.

For those endowed with personality and self-assurance, the passive life is full of stress and strain. Japan's high suicide rate among industrialized societies is one symptom of this. Japan also has an increasing number of people not in education, vocational training or employment, especially among the presumably mature 35 to 44-year-olds. Then there are the estimated one million who simply shut themselves in their rooms for years on end, while family members leave food outside their doors.

The majority of Japanese, of course, are successfully self-alienated, otherwise society could not function. The well-adjusted embrace the adult ethic of loyalty and belonging, and are its keen enforcers. Even profit-seeking organizations tend to shun the dynamic, entrepreneurial ethic for fear of fragmentation and disorder.

Endless meetings mark Japanese organizational life. While organizations shaped by the bureaucratic ethic are strictly hierarchical and the chain of command is explicit, decision-making tends to disguise this top-down nature. The ultimate pur-

pose of meetings is to make the decision into general consent, so meetings cannot end until at least all agree not to openly disagree. The decision then becomes the expression of organizational will. In this way, the location of responsibility is obscured.

The Japanese on the whole are educated and molded to perform fairly competently in clearly understood roles. The problem of the age is the quality of instruction, the paucity of effective leadership in a country that, revealingly, has had three prime ministers within the last two years—two of them having abruptly abandoned office. And this is not altogether surprising, for the generation in leadership positions today learned its ways as Japan crystallized the bureaucratic ethic and Japanese people became passive, equal and alike.

Japan's Ministry of Education wants to standardize autonomy, innovation and creative thinking.

Finding a New Model

CHANGE IS COMING, however. It was not long ago that more than 90% of Japanese responded in opinion polls that they belonged to the middle class. Now one hardly hears of such polls even being conducted. The issue for the last decade has been growing inequality of income and employment. The number of permanent employees has sharply declined, and the number of temporary and part-time employees, who earn substantially less and have no job security, is on an even sharper rise, making up more than one-third of the work force.

Middle-class Japan faces the onslaught of global capitalism, as firms have been forced to adjust their ways to remain competitive. Japan has begun to recapitulate the American transformation of the 1960s and 1970s from predictable lifetime employment to labor mobility and insecurity.

Pundits in Japan sound alarms about the demise of middle-class uniformity; some even asserting that being alike and equal is synonymous with Japanese culture and tradition. Such essentialism is utter nonsense, of course; inequality has been the norm during almost all of Japanese history. The life of conformist organization arose in the 1960s and began to decline in the early 1990s. This was the period of the “economic miracle,” which briefly inspired pundits around the world to assert that Ja-

pan had devised a very particular and superior form of capitalism. Now nearly two decades after the collapse of the Japanese belief that their economy can only grow, there is no counterculture in sight. The Japanese keep patiently

waiting for the authorities to draw up a new set of social rules.

The Ministry of Education, Culture, Sports, Science and Technology has come up with a national rejuvenation plan that proposes to define the university baccalaureate. It aims to forge innovative graduates with enhanced productivity to carry the social burden of the aging population. To this end, the bachelor's degree is to become a demonstration of the holder's ability to work effectively, and to become internationally competitive and recognized. Paradoxically, it wants to standardize autonomy, innovation and creative thinking.

“Japanese education is mind pollution,” a 2008 Nobel laureate in physics, Toshihide Masukawa, lectured the minister of education. Japanese education is singularly geared toward memorizing the correct answer, to be parroted in examination. Mr. Masukawa deplored that students are given no room to think, no incentive to ponder possibilities and differences. Education extinguishes creativ-

ity and the life of the mind. Most Japanese Nobel laureates in the sciences had done their work in America. Almost all of them profess that their work could not have been done in Japan, where there is rarely support for the kind of work that takes risks and leads to breakthroughs.

Education bureaucrats and professors lament the quality of university students because of their lack of independent thinking and intellectual curiosity. But surely the students are being wise. They won their university places exactly because they snuffed out any tendency toward autonomous thinking, any sense of adventure and ambition. They accepted spoon-feeding from an early age. Challenging conventional wisdom, which means challenging nebulous and all-encompassing authority, is a sign of immaturity and undeserving of a university place.

Japanese education is geared toward supporting a standardized manufacturing economy. A manufacturing economy really requires no more than high school education that instills the ability to read and follow instructions. Here, the university's function is to pull up the level of education through high school by making students prepare for the entrance examination. What is taught and learned at university is of little concern; it is the ability to enter that matters. Once in, the system assures and assumes graduation with little regard for quality. This kind of university education has served Japan tolerably well up to now, but it is woefully inadequate for global competition in the service economy.

Tokyo University stands at the pinnacle of the Japanese hierarchical education system; other universities are in one way or another clones of Tokyo. Founded in the late 19th century, the university was designed to churn out state administrators, the best and brightest who in recent decades have successfully standardized and mechanized society. These bureaucrats carefully plan

the future, making unpredictable evolution obsolete. But there is a critical difference between Japan's present and its recent past that began in the mid-19th century.

Japan playing catch-up with Western modernity always found an array of outside models from which to pick and choose. Now, having caught up, there are no more models upon which to base plans. Thus Japan has no choice but to stand on its own two feet instead of swaying with the current of world history. Modernizing Japan showed great ingenuity adopting foreign techniques; now modernized Japan needs to think creatively.

Still, true to form, the education ministry's plan to foster innovation and creative thinking posits the American university as the model. After all, almost all of the top 10 ranked universities in the world are American. But investigating minutiae is a habit of the bureaucratic mind, and mistaking form for substance is its common failing. The education ministry has notified all universities, public and private, that courses should have electronically posted syllabi. So universities across Japan now require professors to present syllabi following a uniform list of required entries, each with a set word count. This form, conjured up by some government bureaucrat following American samples, does not give enough space to write a full and sufficient syllabus, yet no university dares suggest alteration.

Obviously, innovation and creative thinking are antithetical to institutionalized guidance. The Japanese university needs to be set free. Yet in its usual competent, bureaucratic manner, the Education Ministry's plan clearly warns that leaving university reform to market forces will lead to unevenness and chaos, thereby making international recognition of the value of the Japanese baccalaureate impossible. Universities as state-run bureaucracies must remain equal and alike. Seeking intangible innovation is full of risk. Education must

serve the goal of social harmony, to keep people in bondage. The ability to challenge authority fosters liberty, but liberty to the bureaucratic mind is chaos so not allowable. The bureaucratically controlled Japanese university is not designed to create individuals who act to change their fate.

Bureaucrats Disrespected

THE BUREAUCRACY IS increasingly seen as incompetent, corrupt and self-serving. For instance, there is a shortage of doctors because not long ago the Ministry of Health and Welfare predicted an oversupply, and the Ministry of Education restricted the number of places in medical schools. There are underused roads everywhere and more money is always available to build new bridges, but not to repair crumbling ones. Demographic predictions are drastically revised almost every year—not because the bureaucrats can't count, but because their job is to prepare documents with numbers that justify current policy. Records are forged or mysteriously go missing, officially generated statistics are phony, and social security is insolvent.

The number of applicants for national civil service has been declining noticeably. Top-tier Tokyo University graduates are turning away from the civil service toward private-sector jobs, and mid-career bureaucrats are resigning in record numbers. The old bureaucrats who epitomize a passive Japan remain, reveling in what they believe to be their and Japan's mature development.

Jean-Marc Coicaud of the United Nations University recently posed a critical question: "Can Japan become open-minded and not self-centered so that it can exercise political influence that matches its economic weight?" The problem is that a country can only present to the outside world values by which it lives. In a recent survey conducted by Pacific Forum, an American

think tank, Japanese foreign policy and opinion makers were asked to name key elements of Japan's national identity. Tellingly, the respondents could not even begin to answer, so the question had to be rephrased: How do you think other countries see Japan? The self for Japan and the Japanese is determined by what others think.

There is a nebulous unease felt by the Japanese about a rising China. The feeling is that it is acceptable to be a subordinate of America but certainly not of China. So Japan must remain subordinate to America in order to fend off Chinese dominance. With this logic, the Bush administration's push to strengthen the U.S.-Japan alliance found resonance in Japanese policy circles. Simply put, if China's transition to a middle-class society goes well over the next half century and more—as seems inevitable—then Japan's relative position will be like that of Canada with America. Clearly, Japan ought to take the initiative in creating an international world in which having to choose between American and Chinese hegemonies holds no meaning, but that takes innovative thinking and open-mindedness.

Infants are innocent, and they trust their parents. The Japanese are willfully innocent infants who perhaps shouldn't trust their protectors indefinitely. Parents in America are known to kick their adolescent children out of the house and make them fend for themselves. As for not competing with other children such as the Chinese, who seem intent on going through a belated adolescence as quickly as possible, the Japanese want to go in the corner and pretend there aren't any other children around. Rather infantile, but perhaps a clever choice if you think you can count on your parents to protect you from the child down the block when it becomes an adult more vigorous and less distracted than your own parents. Perhaps Japan is destined to become the ultimate "parasite single." ■



A Long Hot Summer And a Call for Change

by Ali Ahmad Jalali



THIS SUMMER THE public mood in Afghanistan is a combination of anxiety and hope. With more than 400 attacks in a single week in June, violence has reached the highest level since late 2001. The trend is expected to continue, making this the bloodiest summer since the downfall of the Taliban nearly eight years ago. Meanwhile Afghans across the country hope that a new United States approach, coupled with a much desired improvement in governance following the Aug. 20 Afghan presidential election, might reverse the security decline and pave the way for stabilizing the situation.

A recent public opinion survey by the International Republican Institute indicates that only 30% of Afghans think the country is moving in the right direction, a 49% drop from 2004. Yet disappointment has not made Afghans apathetic, with about 75% of eligible voters registered for the upcoming presidential election, with 60% intending to participate.

This comes against a backdrop of several years of poorly resourced and ill-coordinated reconstruction efforts during

which the situation evolved from a relatively simple postconflict setting into a complex threat environment marked by terrorism, insurgency and the many challenges of nation building. The deployment of 21,000 additional U.S. troops over the next 12 months is designed to reverse the momentum of the insurgency and encourage the development of strong and accountable Afghan governance.

However, the security situation is spiraling out of control, and this summer may be the last opportunity to reinvigorate the counterinsurgency efforts. Violence has been steadily increasing for the last three years, and is set to rise further this summer as the presidential elections and the arrival of U.S. "surge" forces present a new range of targets for insurgent attacks. Ineffective governance by the Afghan administration has eroded its legitimacy amongst the population, which has seen no discernible improvement in its safety or prosperity.

The new U.S. policy for Afghanistan and Pakistan aims at disrupting, disman-

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ting and defeating al Qaeda and the Taliban in both countries and preventing their return there. Building a viable government in Afghanistan that can control its territory and win the trust of its people is the prerequisite for achieving these goals. The eradication of violence and terrorism cannot presage establishment of a stable government, but rather a stable government must presage the eradication of violence and terrorism if these gains are to be sustained. Although Afghanistan cannot be turned into a full-fledged democracy overnight, it can eventually be transformed into a stable country defined by democratic principles. The fulfillment of such a potentiality will require the governments of Afghanistan, the U.S. and their coalition partners to forge a shared vision of an Afghan state able to govern its citizens justly, grow its economy steadily and secure its territory independently.

During the last seven years, policies designed to stabilize and democratize Afghanistan have failed not because of their infeasibility, but because of the uncoordinated and poorly resourced efforts to support them. International involvement in the state-building process was an afterthought to the fight against global terrorism, and was driven by the desire to remove the threat to the U.S. emanating from Afghan territory. From the outset, contradictory concepts dominated international effort to stabilize the country.

The Taliban were removed from power, but neither their potential to come back nor their external support was addressed. Alliances of convenience with warlords perpetuated the influence of the most notorious human-rights violators. Insufficient investment and inefficient use of funds, mostly outside government control, failed to create economic opportunities, good governance and the rule of law. Militarily, U.S. troops focused narrowly on fighting "terrorists" in Afghanistan, even though many terrorists

had already snuck across the border to Pakistan. Other North Atlantic Treaty Organization members restricted their troops' contributions to peacekeeping operations despite the fact that peace had not yet been achieved. As a result, opportunities to stabilize Afghanistan were squandered and a revitalized Taliban-led insurgency was allowed to emerge.

Now Afghanistan has reached a tipping point. Its government's legitimacy and, in fact, its very existence is being openly challenged by an array of insurgent forces. The Taliban, which has long operated a shadow government in Afghanistan's most dangerous areas, has succeeded in extending its power to Kabul's doorstep, and a weak and corrupt Afghan government is powerless to stop it. Most Afghans do not view the insurgents as a viable alternative to the current government, but they are reluctant to stand up to them on behalf of a government that can neither protect them nor deliver them basic services.

Defining Success

AFGHANISTAN'S TRANSITION FROM conflict to peace and sustainable development is a process of state building with its associated security, political and economic dimensions. It involves the creation of a set of institutions, capacities, resources and provisions for the rule of law. Both state building and governance in Afghanistan are troubled by diverging concepts that influence the policies of domestic, regional and global actors on the Afghan scene. They are further hindered by a continued cycle of political and economic violence. In such an environment, competing demands for responding to these challenges are often hard to reconcile. Adopting and pursuing a much-needed comprehensive and integrated strategy, along with its coordinated implementation, is further exacerbated by the involvement of numerous domestic and in-

ternational actors who come with an uneven level of commitment, different degrees of resources, procedures and priorities. The resulting operational constraints inhibit strategic coordination in fighting the insurgency while building state institutions and good governance.

Consequently, different actors involved in Afghanistan fought their own separate wars ranging from counterterrorism, counterinsurgency, stability operations and "peacekeeping" initiatives. With no strong links between these efforts, at times they worked against each other. As a result, there was no unified long-term vision and no uniformed standards for measuring success. This has to change. In the long run, success will be defined by the ability of the Afghan government to control its territory, win the trust of the people and prevent infiltration and subversion from abroad. For this to happen, it is imperative that international and Afghan security forces focus on protecting the population from the violence and intimidation of the insurgency.

Unless this occurs, no government initiatives will succeed in improving the lives of the citizenry. It is only through such governance that the international community and the Afghan government can achieve the ultimate counterinsurgency goal: to make the Taliban and their insurgent allies irrelevant. The Taliban will not be defeated by force, but can be undermined by stability, economic progress, political transparency and well-enforced legitimate systems of justice. The centrality of security and justice as counterinsurgency issues is apparent from recent Afghan history. The popular discontent with lawlessness under the Mujahideen government in mid-1990s

paved the way for the success of the Taliban. Later it was the Taliban's brutalized "justice" and their oppressive securitization schemes that turned the people against them during the U.S.-led invasion in 2001. The great danger for the current Afghan government and its international supporters is that their failure to improve the lives of ordinary Afghans and protect them from the depredations of Taliban reprisals is leading the population to acquiesce, albeit reluctantly, in the return of Taliban control.

Practicable democracy is a prerequisite

for America's successful involvement in Afghanistan and the country's political future. This requires a long-term commitment. It is an intricate process and it is not cheap. A long-term, state-building process, however, can

If progress on security and development is not made in 12 to 18 months, the momentum will shift to the insurgents.

be hindered by short-term political agendas, as well as by excessive dependence on external assistance. In 2003-04, the rush to a quick solution for integrating the incompetent, and often corrupt, demobilized militiamen by dumping them on police structures undermined the long-term development of the National Police that continues to suffer from rampant corruption and professional incompetence.

A change will require connecting tactical and strategic operations, reconciling short-term and long-term goals and supporting what Afghans see as future priorities rather than allowing outsiders to make the decisions for them. Currently, Kabul is not in full control of institution-building, security operations and development choices; the basic functions of governance are performed by an array of state and nonstate actors, including foreign militaries, international bodies, NGOs and informal/traditional domestic power

holders. Nor are military and nonmilitary operations coordinated and directed toward a common goal. Meanwhile, actions carried out by different partners, including NATO, the U.S.-led Operation Enduring Freedom, the Afghan government, regional partners (Pakistan in particular) and others, are strategically fragmented. The alternative is to make the Afghan government the sole owner and coordinator of the overall strategy. However, this is not likely to work before the Afghan government acquires the capacity to strategize and coordinate the overall efforts for stabilization and reconstruction.

In developing a new strategy, Afghan society needs to be mobilized in pursuit of what its population aspires to instead of what a supply-driven assistance program imposes upon it. Many have debated whether such mobilization should be driven by the central government in a top-down approach or by local organizations in a bottom-up approach. In reality, both approaches have been tested, and both should be utilized as the situation in Afghanistan is moved forward. The Bonn process initiated a bottom-up approach by allowing regional strongmen and warlords to help overthrow the Taliban. The decentralization it created was in turn meant to be checked by the 2004 Afghanistan constitution, a document that empowered the central government to proceed from the top-down. Today, there is a need to balance power harmoniously between the center and the periphery. Ideally, the Afghan central government would take the initiative in fighting insurgents, building critical infrastructure and reforming corrupt national institutions, while community organizations would take the lead in driving local-level economies, delivering services and conducting dispute resolution.

However, long-term stabilization can be achieved only through creating a secure space through short-term actions. Three

factors will determine whether the security situation can be stabilized in the short-term: the U.S. "surge" and its concomitant shift in counterinsurgency strategy; the outcome of the presidential election and the willingness and ability of the next Afghan government to reform institutional structures and the provision of services to the population; and, finally, Pakistan's operations against insurgents in the Pashtun tribal belt along the Durand Line.

The Civil-Military 'Surge'

THE SURGE OF military and civilian personnel into Afghanistan must be fixed to a strategy that prioritizes the two prerequisites for long-term stability—protection of the population and the building of Afghan institutions and capacities for good governance. In order to create an environment conducive to political progress, the Afghan population must be provided with security. By living within communities and conducting the most difficult counterinsurgency operations, international troops and the Afghan National Army can provide the space for rule of law and stability to emerge.

As in Iraq, the "surge" of U.S. troops and civilian personnel into Afghanistan will coincide with a reorientation of counterinsurgency strategy. The promotion of Gen. Stanley McChrystal to the role of commander in Afghanistan is being touted by the White House and the Pentagon as a signal that the U.S. intends to do things differently, and better than before. Despite his background in the Special Forces and his experience running manhunts in Iraq, Gen. McChrystal has been forthright in declaring that success in Afghanistan will not be achieved primarily through the application of force. At his Senate confirmation hearing, he announced the basis of his strategy for Afghanistan was "to convince people, not to kill them."

Rather than attack the insurgents, Gen.

McChrystal intends to conduct a "classic counterinsurgency campaign by getting people down in among the population." This is a belated but welcome recognition that protecting the population is the key to victory in Afghanistan. So far, air strikes and over-focus on force protection at the expense of civilian casualties and durable security; picking and choosing discredited allies in fighting terrorists and insurgents; and indiscriminate and unwarranted searches of peaceful villages without consideration for local culture, or detaining inhabitants who have no known connection with hostile armed groups, have provoked resentment and indignant protests that hindered the stabilization effort.

Without international troops living among the most vulnerable communities it is impossible to create a security environment in which the government of Afghanistan can begin to address the needs of the people. The mission of the "surge" forces must focus on isolating the population away from the insurgents, and enabling Afghan security forces to take increasing responsibility for this task in the coming years.

Ultimately, while military success is needed, it can do no more than create the space for the sort of good governance and political reconciliation that is necessary to undermine the appeal of the insurgency. Although the success of the Afghan government will eventually rest on the institutional capacities and leadership of technocrats and politicians, it is up to security forces to create the environment in which progress can be achieved. Currently, the levels of violence are so high, and international troops so thinly dispersed, that the Taliban and its affiliates have almost unhindered access to the population on a daily basis. Under such conditions, it is unreasonable to expect people to commit to the government.

Finally, the success of state building and counterinsurgency in Afghanistan remains tied to events in Pakistan. With insurgent

camps in Pakistan providing safe haven for Afghan militants, the two nations' conflicts are interlinked and perhaps even inseparable. The success of the Pakistani army in suppressing the uprisings in Swat and Northwest Frontier Province, and the ability of the government to address the grievances of the population on matters of justice, land rights and rule of law will have a profound effect on the ability of the Afghan government and its partners to conduct successful counterinsurgency operations. Pakistan's Army and Frontier Corps have recently been clearing out militants from the Swat Valley and nearby districts and the army has been pounding strongholds of Pakistani Taliban leader Baitullah Mehsud in the South Waziristan tribal region bordering Afghanistan.

Speaking at a recent Pentagon press conference, Col. John Spitzer, a U.S. commander stated that Pakistan's military offensive against insurgents appears to be draining resources including money and weapons that might otherwise be going to militants fighting on the other side of the border in Afghanistan. Consequently, he indicated that militants' activity in this area of Afghanistan has declined. But there is a need to expand the military operations against the mostly untouched Taliban bases in the Quetta area where attacks are launched against Afghan and NATO forces in the southern provinces of Afghanistan.

At a Turning Point

THIS SUMMER, AFGHANS will vote in a presidential election for the second time since the fall of the Taliban in 2001. While indulging in the unavoidable oratory commemorating this landmark event, Afghan and Western leaders should be aware that the result of the election will be essentially irrelevant if the process of forming a new government is not handled correctly. The Afghan population is tired of the ve-

nality and incompetence that have been such unfortunate hallmarks of this administration. The election process should be judged on how well the government is able to enact the structural and personnel changes necessary to put Afghanistan on the path of progress.

Bringing a divided polity, fractured on ethnic, tribal, geographic and linguistic lines, into a unified government is a necessary task for the new president. However, if impractical campaign promises that create high expectations, deal making and cabinet horse-trading allows corrupt or compromised officials to regain high office then the government's legitimacy will be fatally undermined from the start. With the security situation worsening, and the Afghan population increasingly distrustful of the promises made by its elected leaders, there is an urgent need to show that accountable, effective and efficient leadership is possible. The entire operation of governing has to be reformed, and done so in a way that satisfies the fierce desire for positive change, probity and development.

This election thus comes at a turning point for Afghanistan. If progress cannot be made on security and development over the next 12 months to 18 months, then momentum will shift comprehensively and perhaps irrevocably toward the insurgents. Coinciding as it does with the military and civilian surge, the elections are an opportunity to change the way government does business and show the Afghan population that state institutions can bring stability.

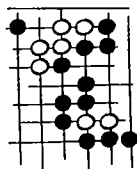
However, a number of problems exist, with the potential to forestall the emergence of a newly legitimate government. One problem is that there are complications associated with the security situation. According to recent assessments by the Afghan Independent Human Rights Commission, there is substantial threat of the Taliban in one-third of the country's districts. The threat is particularly signifi-

cant in the south which is likely to prevent many Pashtuns from being able to vote. By keeping the Pashtun voters out of the election, the insurgents insure that the new government will be seen as unrepresentative. Pashtuns who fear domination by other minority ethnic groups become easy prey to insurgents' propaganda that the government is a vehicle for ensuring their subjugation and oppression.

Looking Ahead

ALTHOUGH ATTENTION THIS year is likely to focus on the surge and the elections, these are both means to achieve broader ends: security for the population and better governance. These two principles must guide the deployment and operation of international forces, and define the shape and behavior of the new government regardless of who leads it. If positive change cannot be achieved in these two areas, the Afghan population will begin to abandon the government, and the streets of Kabul will likely see antigovernment rioting and rising public disobedience.

Over the next 18 months, certain key indicators will show how successful the government has been in proving its commitment to reform, justice, rule of law and the security of its citizens. As measures of success, we should focus on whether the population feels secure, for this above all else will determine the success of counterinsurgency and therefore state building. Are refugees returning or leaving? Is civilian cooperation with government intelligence and security services improving? Are militants' bombing and suicide attacks up or down? Can people and goods move freely? Rather than the overall level of violence between the military and insurgents, answers to these questions will indicate whether the population is being protected and whether the government is able to fulfill its mandate to improve its lives. ■



Time to Get Afghanistan Right

by Hekmat Karzai and Hyder Akbar



AFTER SEVEN AND a half years of international engagement, Afghanistan is at a very important turning point. The country facing

a daunting set of challenges: a ruthless insurgency, comprised of militant groups with different capabilities and objectives; the government still struggles with corruption and delivery of basic services; the country produces 90% of the world's heroin, with the volatile province of Helmand producing half of the crop; and regional players are still involved and trying their utmost to influence Afghanistan's future.

On the other hand, the country has seen 9% growth in its economy for the last six years; has held presidential and parliamentary elections in which the majority of the eligible voters participated in the process; thousands of schools have re-opened; and health-care services now reach around 80% of the population. U.S. President Barack Obama has made Afghanistan one of his top foreign-policy priorities, which has led to an alignment of the United States' efforts from Iraq to Afghanistan. However, unless the indigenous capacity of the Af-

ghan people is developed in a timely fashion and regional players adopt a responsible policy stance toward Kabul, President Obama's Af-Pak strategy may not be enough to save Afghanistan.

Mistakes of the Past

THERE ARE AT least 10 lessons we should learn from Afghanistan's recent experience.

- *Half-hearted support.* The international community did not provide Afghanistan the commitment that it deserved after the Sept. 11 attacks. Instead, there was a lackluster approach to everything, including the stability and development of the country. Mistakes were made which led to a decline in public support for the international intervention.

- *Lack of institution building.* From the outset, there was no interest in building Afghan institutions, so alliances were made with local commanders—the same

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elements that fostered the emergence of the Taliban. Many of these commanders brought back to power by the West only empowered themselves and isolated the rest of the population.

- *Too few troops.* The light footprint was not appropriate since Afghans expected much more from their international partners. The West, on the other hand, was frightened that Afghanistan could become their “graveyard of empires.” Yet Afghans saw the international forces as peacekeepers rather than occupiers.

- *Too Kabul-centric.* The International Security Assistance Force, established by United Nations mandate, only operated in Kabul during the early phase of the transition, leaving a severe security vacuum that was rapidly filled by the commanders.

- *Poor enforcement.* The Disarmament Demobilization and Reintegration process was not taken seriously, even though there was a genuine effort by the Japanese who funded the program. Many commanders kept their heavy weapons and only turned in their old scrap.

- *See no evil.* Mafia-like structures were established, but everyone, including the international community, simply turned their heads the other way, which has led to corruption and the illicit drug trade spreading throughout the country.

- *Failure to reconcile.* The international community could not get its act together on reconciliation, even though there were several opportunities for dialogue with the opposition. Lakhdar Brahimi, the former special envoy of the U.N. secretary-general, states that this was the biggest mistake of his tenure.

- *Too easy on Islamabad.* The International Community and particularly the U.S. were deliberately blind toward Pakistan, while all along the terrorist sanctuaries and leadership straddled the Durand Line border. Two Taliban *shuras*, or councils, still operate from Pakistan and are

even known as the Quetta Shura and the Peshawar Shura.

- *Little financial support.* Afghanistan received an extremely low level of aid per capita. The U.S. and its allies put 25 times more money (and 50 times more troops), on a per capita basis, into postconflict Kosovo. There should have been a serious commitment to rebuild Afghan society and infrastructure.

- *Little inclusion.* There was a failure to understand the politics of development. Afghans were not put in the driver’s seat or even consulted on local projects. Instead, major foreign companies received the bulk of the funding and clearly failed to deliver.

- *In Baghdad’s shadow.* Iraq became a big distraction; most of the resources and key personnel from the U.S. were taken from Afghanistan and sent to Iraq.

The Obama Plan

SOME U.S. OFFICIALS have described the conflict in Iraq as the war of choice and Afghanistan as the war of necessity. The facts on the ground prove this to be true. Al Qaeda was able to plan and finance the Sept. 11 attacks from Afghanistan. The Af-Pak region is also the original nesting ground for al Qaeda; it is where they established strong networks among themselves and where they built relations with local communities and certain state institutions. This region also has the kind of terrain and remoteness that makes it an ideal area for a group like al Qaeda to base itself. Although the U.S. has recently acknowledged the crucial importance of Afghanistan, the country had long been neglected by policy makers because of the war in Iraq. Afghans, meanwhile, had become hopeful about the international community’s engagement and looked forward to a partnership that would help bring stability to the country—instead, Afghanistan received international support that was inadequate to deal with

the challenges of a nation recovering from more than 20 years of conflict. Hopefulness soon transformed into disillusionment.

This change in attitude of Afghans was a reflection of events on the ground. The U.S. was winning in Afghanistan for the first two years and the country was in relative peace; the Taliban had disbanded and was no longer an organized fighting force. But avoiding the realities that were forming in Afghanistan changed the situation dramatically. The vacuum in those initial years when Afghanistan was written off as a success story provided an opportunity for the militants to recruit, regroup and rearm themselves across the Durand Line and to conduct attacks against the Coalition Forces and the Afghan government. With time and ample resources at their disposal, the militants are now putting up stiff resistance. The deteriorating situation in the country has reached a level that can no longer be ignored and Afghanistan once again sees itself at an important juncture. At this point, Afghans have welcomed the new Af-Pak strategy since it is seen as an attempt by the Americans to get things right.

The new Af-Pak strategy combines both Pakistan and Afghanistan as one policy unit. The Obama administration has realized that success in Afghanistan is not possible without dealing with the challenges of Pakistan, where militancy and extremism has taken root and where the rear-bases of many of the groups operating in Afghanistan are located. The main insurgent groups that are now fighting in Afghanistan—including the Taliban, the Haqqani Network, Hizb-i-Islami Gulbadin Hekmatyar (HIG), Tahreek-i-Taliban Pakistan (TTP) and al Qaeda—are based out of Pakistan. Some of these groups are allegedly receiving support from official channels within the Pakistani establishment.

The central premise of President Obama's Af-Pak Strategy is to deliver a deathblow to al Qaeda and other militants,

and to make sure that both Afghanistan and Pakistan do not become safe havens for terrorists. This will only be achievable if Afghanistan and Pakistan cooperate with each other, especially on issues such as the increasingly volatile Af-Pak border, where the militants have a strong presence. Among Afghans and elements of the international community, there is increasing apprehension about state institutions in Pakistan and the role they play in regards to the militant safe-havens that exist within their country. The priority that the Obama administration has put on engaging Pakistan has been welcomed by Afghans as it indicates that U.S. policy makers understand the importance of this core issue.

Aside from the regional aspect of the new Af-Pak strategy, there is also an emphasis on developing institutions within Afghanistan to help stabilize the country. Building Afghan military and civilian capabilities is an important element of the new strategy. The emphasis on developing the security institutions of the country has been made clear by the Af-Pak plan and is vitally important to ensure long-term stability in Afghanistan; both the Afghans and the international community know that the presence of international forces in the country is neither sustainable nor ideal.

On the military front, there will be 4,000 extra troops to train the Afghan National Army and additional 17,000 troops to combat the militants, bringing the total number of U.S. troops to 68,000. These additional trainers will help the ANA grow into a much larger force—a boost from 70,000 troops to over 200,000 troops. The additional soldiers will be deployed to southern Afghanistan, which is the stronghold of the insurgents and has seen a serious spike in violence, as well as other areas where the insurgency has made strong inroads, mostly in the east and certain areas surrounding the strategic center of Kabul. The idea behind this “mini surge” is to

make sure the insurgents do not gain any more footholds in the populace.

The additional troops would also protect the populace from coalition air raids. So far in the conflict, the North Atlantic Treaty Organization and the Coalition Forces have relied heavily on air assets to make up for their low number of troops on the ground. Many times, air bombardment has led to civilian casualties, which insurgents have used as “political oxygen” to recruit family and tribal associates of the deceased.

The military surge will be accompanied by a civilian one as well. President Obama has announced that there will be an increase in civilians—agricultural specialists, engineers and lawyers among others—sent to Afghanistan to help develop the country’s economy and increase the capabilities of the Afghan government to deliver basic services to the people. The strategy also includes the appointment of an inspector-general who will oversee the implementation of these projects—something that has been a serious issue these past few years due to allegations of corruption and wasted aid money. A focus on the civilian aspect of the situation in Afghanistan cannot be underestimated. The illicit drug trade, dire economic conditions and corruption within the Afghan government are seen as crucial factors contributing to the rising insurgency in Afghanistan. There will also be a greater focus on development efforts in Pakistan, including \$1.5 billion in development aid for the next five years.

Despite the potential of the Obama plan, some key challenges remain. There is a risk that “internationalizing” the efforts could have a negative impact on the new strategy. The surge of civilians in Afghanistan could undermine the Afghan government and

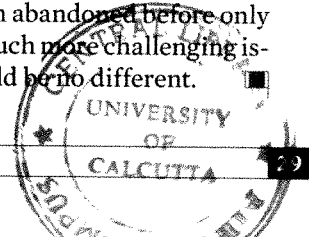
hurt the process of developing local capacity, something that will be needed for Afghanistan’s long-term future. In the last seven years, \$1.6 billion has been spent on technical assistance to help with development and other civilian efforts. This is a huge economic cost and it also shifts the focus from what is really needed—developing

local institutions to deal with the challenges directly. If the new civilian surge in Afghanistan is a continuation of this process, this could have dire consequences for improving the capabilities of the Afghan government.

On the regional front, challenges also exist. First, the U.S. will offer economic aid to Pakistan for the next five years, but there is no guarantee that the country will respond sincerely. Given the past money that has been spent on Pakistan and the results that have come of it, it is important this aid have enforceable conditions. Second, the NATO alliance in Afghanistan is a “patchwork of actors” and many of them do not share the U.S. objectives.

The obstacles we face in Afghanistan today are serious and ones that we cannot neglect or ignore. Many of the issues are a direct result of opportunities that were missed in the 2002-05 period when the current government was formed. Now the situation has taken a turn for the worse and those same issues that could have been dealt with easily will require more effort and commitment both from the Afghans and the international community. The road ahead is difficult but the alternative of continued instability and strife in this strategic geopolitical region is something that the international community cannot afford. Afghanistan has been abandoned before only to resurface as a much more challenging issue—this time could be no different. ■

Afghanistan has been abandoned before only to resurface as a more serious issue—this time could be no different.





Sri Lanka at The Crossroads

by Razeen Sally



TO MOST OUTSIDERS Sri Lanka is a far-away tourist destination, a tropical paradise that has fallen into a vicious cycle of ethnic conflict. To me it is closer to home. It is where I grew up; and Colombo, the capital city, is my hometown. I think of Sri Lanka as a heaven-and-hell country, consumed by its own extremes and contradictions. These play out at today's crossroads, with the seeming end of a 26-year military conflict.

Sri Lanka is one of the loveliest places on the planet, full of exuberant multicultural colour and with warm, welcoming people. It is green and fertile almost beyond imagination, and its natural endowments support an average standard of living that has long been the highest in South Asia (the Maldives aside). It has serendipitously beguiled visitors from Marco Polo and Ibn Battuta to Arthur C. Clarke. Flying into Colombo airport, the deep-dark green of the island, framed by the Indian Ocean, forms a soft, refreshing contrast with the harsh, parched landscapes of much of India. Once on the ground, the contrast is heightened—the

streets are not as filthy; people look better fed, clothed and housed; they have better manners; and they are friendlier.

Yet this is also a country that has descended into an inferno. A gathering of seemingly pacific Sinhalese Buddhists can sometimes flip into a frenzied mob. Sri Lanka's hardy Tamil minority has produced one of the most murderous terrorist movements in the world. Ethnic conflict has consumed 100,000 lives. Two student-peasant uprisings in the Sinhalese south, one in the early 1970s and the other in the late 1980s, were brutally prosecuted and brutally crushed. Several governments have used paramilitaries and vigilantes to achieve military and other objectives, in flagrant disregard of the law. Sri Lanka's politics are infested with assassinations, thuggery, mob violence and mafia connections.

The Sri Lankan government has completed an emphatic military victory over Tamil Tiger rebels. No one with an ounce

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of humanity will shed a tear at the death of the Tigers' monstrous leader, Velupillai Prabhakaran, and his chief lieutenants. But victory has come at great cost in terms of combatant and, above all, civilian casualties. It has been met by a wave of nationalist euphoria in the Sinhalese heartland, despair in the Tamil diaspora, and criticism of human-rights abuses by Western governments. All moderate, sensible commentators agree that Sri Lanka's president, Mahinda Rajapaksa, must follow up his military victory with a just settlement for the Tamil minority. If not, terrorism will go underground and ethnic conflict will continue to fester. But, as important, Sri Lanka's economy needs radical change. Without that there will be no development take-off and broad-based prosperity. A political initiative to end ethnic conflict and economic-reform initiatives are intimately related; peace and development go together. But will it happen? Or will Sri Lanka miss yet another chance to drag itself out of the quagmire?

The Post-Independence Record

FIRST SOME HISTORICAL background. Ceylon (the former name for Sri Lanka) was a model British colony, well prepared for independence in 1948, six months after India. Unlike India, not a drop of blood was shed in the transition to independence. Ceylon was at peace, had a stable parliamentary democracy and was Asia's second-wealthiest nation. Per-capita income was a fifth higher than the South-Asian average. Ceylon had a prospering plantation economy and, by developing-country standards, a well-developed infrastructure, an efficient public administration and judiciary, and significant achievements in health and education. Its prospects were golden. Visitors, including the economists Joan Robinson and Sir John Hicks, as well as the young Lee Kuan Yew,

waxed lyrically about Ceylon's conditions in the first decade after independence.

Decline ever since has its source in a disastrous Sinhalese political elite pandering to the worst instincts of the Sinhalese ethnic majority and egged on by a xenophobic Buddhist clergy. The elite came from a handful of aristocratic landholding families. Many of these "brown sahibs" were educated in Britain and imbued with Fabian or Marxist ideals. They had the gift of the gab, but little inkling of real life outside their charmed circles. Sir Ivor Jennings, distinguished constitutional lawyer, first vice-chancellor of the University of Ceylon and key adviser in the run-up to independence, worried presciently that these "schoolboy politicians" would play cheap populist politics and ruin the country. So it came to pass.

Sinhalese politicians appealed of course to the Sinhalese majority, an agrarian-based society with great laid-back charm, but one which had not created Ceylon's plantation-based wealth. That was mainly the creation of colonial administrators and planters, Tamil laborers, and a wider penumbra of Tamil and Muslim traders. Like Malaysia, the Ceylonese economy relied on its productive minorities with a work and education ethic, not on its majority ethnic group. But the latter inevitably took control of postindependence politics.

Successive Sinhalese-dominated governments played the populist ethnic card, especially after 1956 when Sinhalese became the official language at the expense of Tamil and English. Affirmative-action policies for the Sinhalese were rolled out, and discrimination against the Tamil minority increased. Opportunities for advancement were closed off, petty discrimination increased and human-rights abuses (especially by the police) proliferated. This sowed the seeds of the Tamil Tiger terrorist movement, culminating in an all-out violent conflict in 1983.

But disastrous economic policies played their part as well. Benign postindependence conditions bred a redistributive rather than growth-maximizing mentality, directed to expanding the welfare state for the Sinhalese majority. Especially after 1956, Ceylon followed the Indian path of rampant government intervention and trade protectionism, in addition to chronic macroeconomic profligacy. This became extreme after 1970, when Sri Lanka had its version of India's "License Raj."

By the mid-1970s, the economy was close to ruin. Growth had come to a halt, real incomes were stagnant, public-sector subsidies were out of control, welfare expenditures were still increasing, unemployment rose to 25% of the labor force, there were balance-of-payments crises, and acute shortages and rationing of consumer goods. Crucially, welfarist policies churned out educated youth from a fast-increasing population, but they had no job prospects in a stagnant economy. Disaffection led many to extremism and violence, not just in the Tamil north but also in the Sinhalese south.

The one bright spot was the major liberalization of the economy in the late 1970s, followed by liberalization bursts in later decades. Sri Lanka led the way in South Asia in switching from "import substitution" to "export-orientation," and more generally in market reforms that (re)opened the economy to the world. But reform has proceeded in stop-go fashion. Its glaring weakness has been macroeconomic incontinence. Public spending, budget deficits and inflation have not been brought under control. Nevertheless, despite civil war, macroeconomic instability and misgovernment, Sri Lanka has grown at about 6% annually. Average real incomes (\$1,540 at market prices and \$4,200 at purchasing power parity) are 50% higher than they are in India. Outside the fighting zones, ordinary people are significantly

better off than they were a generation ago. Key to this success has been industrialization and a more diversified services economy. Employment in the formal manufacturing sector has more than doubled since 1980 and the share of manufacturing in total merchandise trade has increased from 5% to close to 70% of GDP. The star in the firmament is a strong, labor-intensive garments industry—a direct product of liberalization. The industry emerged in the early 1980s, now accounts for about 50% of total export earnings and employs about one million people.

Still, Sri Lanka is a sad tale of what-might-have-been. As of 1960, Ceylon's living standards were higher than those of South Korea and Thailand. As of 1970, Ceylon and Malaysia had similar living standards. With peace and East-Asian-style policies of macroeconomic prudence, openness to the world economy and better government at home, Sri Lanka would be where Malaysia is today (with an average real income of over \$15,000 at purchasing power parity). Absolute poverty would have been eradicated, average living standards would be four times what they are now, clusters of multinational enterprises would link the economy to global supply chains, tourism would be flourishing, services would be hitched to the Indian outsourcing juggernaut, and infrastructure would be much better, as would education and health care. Above all, Sri Lankans outside the elites would have life-chances they can only dream about today.

The State of Play

FAST-FORWARD TO THE present. Start with politics. Power has been centralized in the presidency since 1978. The present incumbent, Mahinda Rajapaksa, is riding the crest of popular support for his single-minded prosecution of the war in the north. He and his three brothers—one is

the defense secretary and another is a presidential adviser on the economy—control the levers of power. Mr. Rajapaksa leads a governing coalition of leftist parties, centered on his own Sri Lanka Freedom Party. He has proved a brilliantly successful politician. The war effort has dominated his agenda—more so than under any previous government. His strengths lie in his ability to connect with the Sinhalese small-town bourgeoisie, of which he is a product, as well as the rural electorate. On the other hand, he is not a policy thinker—least of all on the economy—and has scant knowledge of the world outside Sri Lanka.

The opposition, on the other hand, led by the previously-governing United National Party, is weak, divided and demoralized. Its leadership comes from the Colombo upper-class elite, which seems utterly cut off from, and unable to communicate with, ordinary Sri Lankans, especially outside Colombo and the Western Province. Most likely, Mr. Rajapaksa will call parliamentary and presidential elections later this year, with every prospect of winning handsomely. The danger is that Sri Lanka, shorn of institutional checks and balances, will veer—not for the first time—in the direction of a Caesarist elective dictatorship.

Other political features, visible periodically in previous decades, have also become more pronounced. Sinhalese chauvinism finds expression at the heart of government. It reinforces the worst aspects of Sinhalese pseudointellectualism—a highly mythologized historiography that emphasizes Sinhala superiority and xenophobia toward minorities and near-neighbors; a stark politicization of Buddhism; and a parochial, inward-looking attitude toward the present and future. Intolerance

of dissent and a culture of fear backed by violence, are, at the very least, not discouraged. The armed forces are more powerful than ever. Journalists have been intimidated and several assassinated. Businesspeople and activists from NGOs are scared of criticizing the government—on economic and social issues as well as military issues. Self-censorship abounds. Rumors swirl of government-sanctioned vigilante operations against opponents (“white vans in the middle of the night”).

*Sri Lanka is a sad tale
of what might have
been. With better gov-
ernance, it could be
where Malaysia is now.*

What passes for political debate is black-or-white, hectoring and puerile. Journalistic standards are low and shoddy. Ceylon was renowned throughout Asia for its liberal culture and high standards of journalism, with

space enough for reasoned, nuanced and critical debate. That has been almost extinguished—a symptom of extreme degeneration in public life and an emasculated civil society. Liberal institutions and the rule of law are the inevitable losers. Not least, Sri Lanka has become a balkanized society, with deep splits, usually boiling down to poisonous personality clashes, at every level of politics, business and society.

Economic policy has also deteriorated. The government has spent like there was no tomorrow. Defense spending has more than tripled in the last four years. Other subsidies have also increased, especially to agriculture to shore up vote banks in the countryside. A bloated public sector, employing around one million people in a labor force of under seven million, has swelled even further. It is dominated by patronage politics and packed full of ill-qualified or unqualified political appointees. Monetary policy has resorted to the printing press to plug the yawning gap in government revenues, predictably stoking

inflation, which peaked at close to 30% last year. Official reserves were blown away defending an untenable rupee exchange rate. Yet again, Sri Lanka faces a home-brewed balance-of-payments crisis. Borrowing on international capital markets has dried up in the wake of the global financial crisis, forcing the government to negotiate a \$1.9 billion loan from the International Monetary Fund. Debt-servicing and unsustainable current expenditure have driven up real interest rates and crowded out private investment, as well as long-term investments in education.

State intervention in the banking sector has gone deeper. State-owned monopolies in oil and electricity have been reinforced. Hence energy and power costs remain artificially high, with inefficient delivery. Trade protectionism has increased, with a paraphernalia of additional import taxes. Discretionary powers have also been used more frequently and selectively to restrict imports, e.g., through customs delays and extra charges. The domestic private sector has been repressed with additional taxes and regulatory burdens. The government has even set up its own—predictably loss-making—low-cost airline. And oil, arms and infrastructure deals with China, Pakistan, Iran and Libya lack transparency, to say the least. The government's enthusiasm for these "new friends" has increased commensurately with its cooling of relations with Western governments—"old friends" who have criticized alleged human-rights abuses by the armed forces. But new friends cannot substitute for old friends: Sri Lanka trades overwhelmingly with the West; the U.S. and the European Union alone account for over 60% of its exports.

Over-regulation, regulatory opacity, frequent and unpredictable regulatory changes, and corruption keep the costs of doing business high. Sri Lanka is ranked 102nd in the World Bank's Doing Business

2009 report. It scores particularly badly in dealing with construction permits (which involve an average of 21 procedures, take 214 days to process and cost 1,500% of income per capita); employing workers (firing costs are equivalent to 169 weeks of salary); registering property (with 8 procedures taking 83 days and costing 5% of property value); paying taxes (with 62 payments per year taking 256 hours to process and with a tax rate equivalent to 64% of profits); and enforcing contracts (with 40 procedures taking 1,318 days and costing 23% of the claim). Sri Lanka is ranked not that much better than India (ranked 122nd) and is light-years behind Malaysia (ranked 20th). Sri Lanka does better in the rankings for trade procedures, but that is still nothing to write home about. It ranks 66th in the Doing Business "trading across borders" category (India being in 71st and Malaysia in 29th place).

Policy regression has occurred in a worsening policy-making climate. Academics and other government advisers advocate a state-directed economy, infant-industry promotion and agricultural self-sufficiency—all old ideologies that are back in fashion. Policy making is more populist, opaque and unpredictable, favoring the politically-connected and sidelining technocratic advice. This makes for knee-jerk microeconomic interventionism. Corruption and institutional rot set in long ago, but they have sunk to new depths. Today they pervade and poison all aspects of public life.

What Next?

A WIDELY-SHARED SENTIMENT in Sri Lanka is that military victory will translate into peace and fast development. This fits a pattern: too many Sri Lankans, and certainly their governing elite, perennially expect a quick fix or manna from heaven. The realization has never dawned that the world

does not owe Sri Lanka a living. An East-Asian-type culture of working hard, planning for the future and earning one's success has never taken root. That is why Sri Lanka's blessings—its breathtaking beauty and bountiful natural endowments—are overwhelmed by its curse of lackadaisicalness and complacency. That is true of the world of everyday work, as well as the world of policy thinking and execution. A Sri Lankan acquaintance calls it the "broken window-pane society." The general attitude is that if a window-pane is broken, just leave it; don't bother to fix it.

Without a serious attempt to address the grievances of the Tamil minority—from real devolution of power to the northern and eastern provinces to enforcing legal rights and removing petty discrimination—there will be no peace. The preferred alternative in some government circles—co-opting ex-rebels in the north and east and giving them Chechenya-style warlord operations to run—is clearly not viable in the long-term.

On the economic front, the danger is of creeping Russification. A parastatal network of politicians, Mafiosi and the military could extend its tentacles into business life. That is not yet the widespread reality, but it is a risk. In any event, without an economic-policy overhaul, Sri Lanka faces either slow material decline or something worse, especially with a bleak medium-term global economic outlook.

The short-term imperative is to clean up macroeconomic policy: allow the exchange rate to devalue to a market-determined level, cut public subsidies, and impose order and transparency to the procedures of the

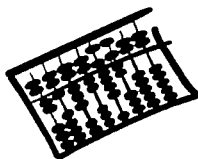
central bank and the treasury. Beyond that, trade protection should be reversed, with accompanying simplification of trade and foreign-investment measures. (The latter are caught in a dense thicket of laws, regulations and government agencies.) Property rights to farmland need to be clarified and strict controls on land ownership lifted in order to raise agricultural productivity. Labor laws need to be more flexible. There

Military victory gives the government the chance to engineer the turnaround necessary for economic take-off.

needs to be deep public-sector reform; a move to market pricing for oil and electricity; and, not least, big cuts in the defense budget. Drastic domestic deregulation is also imperative to cut the high cost of doing business. In the longer

term, Sri Lanka needs a revamp of its rotten political culture and public institutions. Sri Lanka's basic problem is that it has far too much politics at all levels of society. This cramps individual freedom, particularly for the poor citizen without good political connections, and it stymies wealth-creating enterprise.

Military victory gives the government a historic opportunity to engineer the political and economic turnaround necessary for economic take-off. Given the government's record, the chances of an enduring political settlement are not great. The odds are also against an economic-policy overhaul. But the political opposition does not provide a credible alternative. It is safe to say that without a change of political and economic direction, Sri Lanka will continue to be the broken window-pane society, and will fail to achieve its golden potential. Heaven will always be promised and just around the corner, but hell more often the reality—at least for some. ■



A Setback for China's 'Go Out' Policy

by Ken Miller



T

HE FAILURE OF Aluminum Corporation of China (Chinalco) to consummate its planned \$19.5 billion investment in the Australia-

based mining group Rio Tinto is the latest and largest failure of the "go out" policy adopted 10 years ago by the Chinese government. Since the China National Offshore Oil Company's dramatic aborted attempt to acquire America's Unocal in 2005, China has learned a lot—but perhaps not enough. More and more Chinese capital has been invested in companies outside of the mainland, but the amounts are still small relative to other economies of China's size and miniscule relative to the immense amount of foreign exchange China has accumulated.

The heart of the problem lies in the contradiction between the objectives of the state and the profit-maximizing objectives of public companies. Both China National Offshore Oil Company, or Cnooc, and Chinalco are controlled by the government, but significant interests in their operations are bought and sold on stock exchanges. In the case of Cnooc, the contradiction came to the fore when the company's chief execu-

tive officer, Fu Chengyu, made a series of mistakes tied to the company's state ownership: He attempted to acquire for cash a company roughly the same size as his own, which meant he had to get essential capital from other state-controlled sources. Then, relying on his frequent communication with Premier Wen Jiabao, he neglected to elicit the requisite support from his board of directors. This failure threw off his timing, undermined his credibility, and gave Chevron, just the opening it needed to derail his bid for Unocal.

The recent failure of Chinalco to consummate its attempted investment in Rio Tinto is the latest chapter in a longer and more complicated saga, but one which illustrates the same tension between the objectives of a state-owned enterprise and the state. In early November 2007, the Australia-based miner BHP announced a hostile attempt to acquire its Australian counterpart, Rio Tinto. The Chinese government was bitterly opposed to the deal between

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the two companies, since together they represented the cheapest source of iron ore, which is essential for the growth of China's economy. In response to the BHP bid, the Chinese government through its National Development and Reform Commission convened a series of secret meetings to select a SOE which would lead the charge against the proposed transaction. Xiao Yaqing, the aggressive CEO of Chinalco, was chosen over various steel-company CEOs. With the help of Aluminum Company of America, on Jan. 31, 2008, the eve of a deadline which caused BHP to increase and formalize its bid for Rio Tinto, Chinalco stormed in to the London overnight market and bought 9% of Rio Tinto's overall outstanding shares.

At the time, BHP made light of Chinalco's bold maneuver and proceeded to press a world-wide effort to gain the necessary approvals to consummate the deal. Since BHP's proposed acquisition was stock for stock, if it had closed, Chinalco would have been reduced to a 4% ownership position, and BHP could have proceeded with negotiations on ore from a very strong position vis-à-vis China. But the precipitous drop in underlying natural-resource prices, along with difficulties in getting requisite approvals, caused BHP to walk away from the proposed combination. This meant Chinalco paid a premium at what proved to be the then near-term top of the natural resources market; by late 2008, the company was sitting on a massive paper loss.

From the perspective of the Chinese government, BHP's walk-away should have been the occasion to declare victory and move on to other issues, but two problems persisted: Rio Tinto desperately needed capital as a result of its own earlier overpriced acquisition of Aluminum Company of Canada, and Chinalco's ambitious CEO, Mr. Xiao, needed to look smart. On Feb. 12, 2009, Chinalco announced it would invest \$19.5 billion in Rio Tinto through the purchase of substantial minority positions in

various properties of the company and acquire convertible preferred securities which would double its Rio Tinto ownership position. The backlash from the Australian public and from investors was immediately negative. Australians had not been comfortable with their government's recent approvals of smaller Chinese acquisitions, and they hated the idea that their natural resources were drifting into Chinese control. Rio Tinto investors, who were still furious with the leadership of their company, preferred almost any capital-raising alternative to selling a path to control.

The \$19.5 billion Chinalco deal as proposed was a good one for Chinalco and China. Chinalco could average down its earlier high purchase price, and from the Chinese point of view closing this deal would have greatly reduced any threat of BHP combining with Rio Tinto. But from the viewpoint of the state's best interest, the deal was far more ambitious than it needed to be. If China was required to do anything at all, it would have been much better to have helped Rio Tinto solve its capital requirements without attempting to increase Chinalco's ownership position. A loan from a Chinese bank or just the purchase of minority interests in properties would have offered the possibility of substantial influence without the backlash.

In the event, a new opening was created for China's nemesis, so that for \$5.8 billion BHP has succeeded in signing up a \$58 billion iron-ore joint venture which, along with the planned \$15.8 billion rights offering, would plug Rio Tinto's capital hole. But on the strength of Chinalco's second bold move in February, within three days of the announcement of the bid, Mr. Xiao had already left Chinalco to become deputy secretary general of the State Council.

The proposed BHP/Rio Tinto joint venture will need months to obtain necessary approvals, and it too may fail to be consummated. But for now it seems that China and

Chinalco have fallen between two stools. By allowing the CEO of a publicly-traded but state-controlled company to play China's hand, the Chinese have evoked the very problem they set out to scotch. If Rio Tinto and BHP do get together, China's ore price troubles can only get worse.

The foregoing notwithstanding, one has to admire a number of aspects of the Chinalco attempt. The problem for China of the proposed BHP/Rio Tinto combination was correctly and promptly identified. The open-market action on the London exchange was strikingly well executed. Chinalco cleverly muted potential early-stage xenophobia by inviting its previous partner Alcoa to help. The Chinese government worked behind the scenes in resisting BHP's attempt to elicit approvals for the deal in key markets. It appears as if Chinalco benefited at various stages from good financial, political, legal and public-relations advice. And the recent attempt to utilize Chinalco's access to large amounts of cheap capital to create an opportunity by solving a big problem was, at least potentially, brilliant. As a consolation prize, Chinalco is to receive a bust-up fee of \$195 million (a sum which will help offset their cost of participating in the Rio Tinto rights offering).

Despite the apparent setback of this latest stage in the saga, the Chinese business and government communities have been impressive in the rapidity with which they have learned about how to go global. Chinalco's decision to involve Alcoa was a good one and we can expect other examples of non-Chinese partners for Chinese companies, as China expands into the economies of the world. One of the biggest problems Chinese companies are likely to face in this period of economic crisis is anger against China at the loss of local jobs. Certain countries may well decide to kill high-profile deals rather than use up political capital with their citizens who blame China for their misfortune. Nevertheless, from a fi-

nancial point of view, this is an optimal time for China to deploy some of its huge foreign exchange into non-Chinese companies. Prices of acquisition targets are attractive, and the Chinese have the financial wherewithal to act. It is, however, not realistic to expect any significant proportion of China's \$2 trillion of foreign reserves to be thus deployed. Last year, China only invested \$52 billion outside of the country.

But a few guidelines might increase the odds of success. Contested deals should be avoided. There are enough friendly deals in the world with owners and governments that would welcome Chinese capital. But where publicity is unavoidable, a public-relations or political adviser should be part of the team at the beginning of each external attempt. The next lesson to learn is getting smarter about the issue of control. Many of the objectives the Chinese government is seeking to achieve can be accomplished without acquiring big positions in shares of the target. The most important consideration is to let either the state or the company run the deal. If the state had been truly in charge of the Rio Tinto deal, it could have insisted that Chinalco choose between a big jump in ownership and an influential position in specific properties, because trying to accomplish too many objectives in one transaction is often fatal.

China has come a long way since its promulgation of the "go out" policy. More of its executives speak foreign languages and are comfortable doing business overseas. Since 2003, the regulatory regime has made it easier for Chinese companies to invest abroad. Some mistakes of timing and structuring have been made. But China needs to persevere and demonstrate the same patience in its economic sphere as it has demonstrated in its "peaceful rise" foreign policy. This path is likely to increase Chinese influence as well as know-how, and execution will improve with each attempt. ■



Hidden Battles Over Chinese Elections

by Rana Siu Inboden

THE PUBLISHING OF Zhao Ziyang's memoirs on the 20th anniversary of the 1989 student protests serves as a reminder that before that fateful turning point many observers expected China to embark on a program of political reform. In 1987, the National People's Congress passed legislation that introduced elections at the village level, and given the fact that Zhao's advisers were studying democratic models in other countries, optimists expected the elections to progress to higher levels—and perhaps eventually the national level.

At the same time, however, skeptics dismissed village elections as window dressing and criticized the electoral process as suffering from limited competition, control by higher level officials, and procedural irregularities. By and large the skeptics have been proven correct, as the impact of village elections has been carefully contained in order to maintain the power of the Chinese Communist Party. Nevertheless, elections in China have evolved in surprising ways that have defied the expectations of both sides. The unanticipated strengths

and weaknesses of village elections demonstrate the difficulty of predicting the course of political reform in China. Although elections have not been allowed to spread to higher levels of government, starting in the late 1990s local elections were introduced in some cities for the formation of quasigovernmental institutions. The Organic Law on Urban Residence Committees only mentions direct elections as one way of forming Urban Residence Committees and does not specifically require direct elections. However, with villagers allowed to directly elect their own leaders, it was difficult to deny urban residents the same right.

Still, the prevalence of urban elections varies widely throughout China. In Sichuan province, observers estimate that 90% of urban community residence committees hold direct elections, while in Jiangxi province only 5% were constituted through direct elections. Some distinct features of Chinese urban elections appear to be influ-

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enced by China's Maoist legacy, including the extensive use of political slogans to inform and mobilize voters. One election site in Jiangxi province last year was lined with banners exhorting citizens to "Take part in community direct elections, exercise the right to be master of one's own house" or "Excel at elections and build a harmonious society." Like Mao-era slogans, such as "Serve the people," these sayings seek to convey a political concept or call to action. While the message has a modern twist aimed at encouraging voter participation, they are propaganda aimed at shaping public opinion.

The focus on encouraging voter turnout and a high level of participation is also reminiscent of the Mao-era's doctrine of mass mobilization. As noted political scientist Juan Linz observes, elections in totalitarian systems are characterized by "an extraordinary emphasis on participation and involvement of the voter." While China today might be more accurately described as authoritarian rather than totalitarian, the emphasis on voter participation may be a vestige of the Mao-era.

However, rather than using coercive measures, elections officials use creative ways to get the vote out. In an urban election in Jiangxi province last year, in order to encourage voters to participate and stay for the entire process, including vote tabulation, officials held a raffle for prizes and organized cultural performances. This is not to suggest that urban elections are just a show. At an urban election in Jiangxi province, an elderly man, who did not meet the residency requirements to vote in the election, created a scene, raising his voice and angrily protesting his exclusion. As one Chinese election expert remarked, "It is not true that Chinese citizens don't care about voting. Moreover, the economic crisis has made elections in China more competitive. With college graduates facing a difficult job market, more of these young educated peo-

ple are running for positions on the urban community residence committees."

Urban elections have also become more inclusive. The Ministry of Civil Affairs endorsed procedures for direct elections of community-residents committees that extend voting rights to migrants. Even if an individual's *hukou*, or household registration, has not been transferred from their home village, as long as they "have lived continuously in the community for one year or more" prior to the election and have been "carrying out the duties of a community resident" they are allowed to participate in the election. However, because the MCA-endorsed procedures do not have the force of law and are optional, inclusion of migrants in urban elections has been uneven.

Elections appear to be gradually spreading to other sectors. For example, China's HIV/AIDS community participated in an election to select an NGO sector representative to the China Country Coordinating Mechanism of the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The Global Fund requires that the Country Coordinating Mechanism, which is comprised of stakeholders, include NGO representatives that "must be selected/elected by their own sector(s) based on a documented, transparent process developed within each sector." The first election, which was held in April 2006, ended with one of China's most prominent AIDS activists walking out of the election meeting, calling the process "lacking in transparency, unequal and full of double standards." However, since the first election, NGO representatives have worked cooperatively to build consensus around election procedures, agree to include unregistered NGOs. While the second election, which was held in March 2007, was not free from criticism, the electoral process was marked by improved transparency, greater participation, and general support among members for the process and the outcome.

Despite what appears to be growing

government openness to direct elections, there are clear limits. In August 2008, a group of 35 public-interest lawyers proposed breaking with the past practice of having the Beijing Lawyers Association incumbent board of directors elect the incoming president, directors and supervisors. This arrangement had allowed the Ministry of Justice to influence the election and ensure that only candidates that the judicial officials deemed acceptable would be allowed to govern the association. The group of 35 lawyers proposed direct elections, and criticized the Beijing Lawyers Association as unaccountable to its membership and lacking legitimacy.

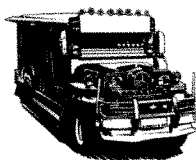
The leadership of the association responded with a statement that rejected the need for direct elections and suggested that it was unlawful to insist on direct elections. The confrontation continued to escalate when five of the lawyers were blocked from standing for election, authorities pressured law firms to dismiss the lawyers who had called for direct elections and one of the firms that had employed a number of lawyers involved in the appeal for direct elections was closed for six months by judicial authorities. Li Subin, one of the lawyers who was fired after calling for direct elections, argues that "in order to protect clients' legal rights and dignity under the law, we must have a lawyers association of our own.... But all this can not happen without direct elections of our own leaders."

While village elections have not led to elections at higher levels of government, they do appear to have inspired demands for greater participation. As lawyer Li Subin notes, "Village elections have been held for the past two decades. This proves it can be done in China. Direct village elections have been helpful in terms of economic development and social stability. Now even villagers can elect their own leaders. Why not let the universities and major cities elect their own leaders?"

Although authorities moved swiftly to stifle further demands for direct elections for the Beijing Lawyers Association, it would be improbable and difficult for the Chinese government to roll back local elections. Village elections are enshrined in Chinese law and have been ongoing since the late 1980s. Some Chinese villages have held several rounds of competitive, multi-candidate elections. Moreover, village elections have not challenged the Party's control of the countryside, and have largely served their original intent of checking local-level leaders who abuse their power, enhancing social stability, and shoring up the regime's support.

Similarly, local urban elections are aimed at making residents committees more accountable and increasing social stability. A number of observers suggest that the regime has used controlled and limited reforms, such as local elections, to strengthen its position by creating the pretense of change and accountability without jeopardizing its position. As Columbia University Professor Andrew Nathan argued in a 2003 *Journal of Democracy* article, the regime has been able to rehabilitate its legitimacy by developing "input institutions" that "allow Chinese to believe that they have some influence on policy decisions and personnel choices at the local level."

The appeal for direct elections would have weakened government control over the Beijing Lawyers Association and potentially turned the association into an autonomous NGO. The Chinese government is likely to continue to suppress calls for direct elections that would weaken Party control while at the same time continuing to allow, and even encourage, local elections. This apparent contradiction suggests that the process of reform in China will continue to be gradual and uneven. As reforms continue, the one constant factor will be the Party's refusal to relinquish its monopoly on political power. ■



Clan Warfare Hobbles The Philippines

by Greg Rushford

SPEAKING IN TOKYO last month, Philippine President Gloria Macapagal-Arroyo proudly proclaimed that thanks to her leadership, the impoverished country is headed in the right direction. The Philippine economy grew 6.1% last year, Ms. Arroyo boasted—although she did concede that forecasts for continued growth in 2009 are edging lower because of the current global economic travails. “The Philippines is finally unlocking its full potential,” the president told a high-powered audience of business leaders and diplomats who convened at the Imperial Hotel on June 19. “We want to succeed someday as Japan has succeeded.”

Sadly, despite her boasts, Ms. Arroyo’s speech conveyed a negative message about her country’s development, because it showed she is in denial about the key stumbling block to growth. The Philippine economy is uncompetitive because the government has protected key sectors that are dominated by elite family clans. Instead of competing in the marketplace, these oligarchs joust with each other for political and economic power.

First, consider the economic history. According to the Asian Development Bank, as Asia began to recover its economic footing after the devastations of World War II the Philippine economy was widely regarded as among the most promising in the region, second only to Japan’s. But by 1960, the Philippines, with a per-capita GDP of some \$612, had already fallen behind Malaysia, Hong Kong, Singapore, South Korea and Taiwan. In 1984, Thailand edged past the Philippines, and by 2006 the Thai per-capita income had risen to \$2,549, compared to the Philippines’ \$1,175. Today, the Philippine economy looks impressive only when compared to sad cases like Cambodia and Burma.

What about the growth rate that Ms. Arroyo touts? Last year’s GDP rise was earned on the backs of some nine million to 11 million overseas workers who mostly toiled as servants in Singapore and Hong Kong, sending some \$16 billion in remittances to their families. Subtract those remittances, which amount to roughly 10% of

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GDP, (not to mention the foreign aid from the World Bank, the ADB, the Americans, Norwegians, Canadians, Germans, Swedes, Australians and Japanese), and the Philippine growth would plummet.

In 1994, University of Wisconsin historian Alfred McCoy observed in his *Anarchy of Families* that even though the Philippines is an Asian country, the Philippine economy must be viewed in a Latin American context. In particular, Mr. McCoy pointed to the small group of elite families, oligarchs and cronies whose control of key sectors of the national economy was a lingering reminder of more than 300 years when the Philippines was ruled by Spain. The United States threw the Spanish colonialists out in 1898, but for another half century before the country became "independent" in 1946 the new American colonial masters continued the tradition of ruling the Philippines through the entrenched family elites. As Mr. McCoy put it, Philippine economic growth has long been held back by the unhealthy confluence of "a weak state and powerful political oligarchies."

Anyone who thinks this is ancient history has only to pick up a Philippine newspaper. The phenomena that Mr. McCoy documented are in the headlines today.

For more than a year, Ms. Arroyo's administration has been waging a bitter battle to wrest control of the Manila Electric Co. from the powerful Lopez family, whose influence dates back to the Spanish days. Government officials who are close political allies of the president have accused the Lopezes of various (unproven) fraudulent activities. Meanwhile, the influential Lopez-owned television network, ABS-CBN, has been busy reporting on a string of (unproven) scandals involving Ms. Arroyo and her husband. As usual in the Philippines, nobody is being prosecuted, while even the basic facts remain elusive. But one thing is clear: Today's battles between the Macapagals, the Arroyos and the Lopezes go way

back. (The first family was contacted for this article, but refused to comment.)

The bad feelings between the Macapagals and Lopezes started more than four decades ago. When Diosdado Macapagal, President Arroyo's father, was elected president of the Philippines in 1961, he "had good reason to dislike the Lopez" family, historian Mr. McCoy writes. "Not only had [family patriarch Eugenio Lopez and his younger brother Fernando] financed his rival's campaign but they were maneuvering for control of Congress to position Fernando for a presidential bid in 1965." President Macapagal then "employed the full powers of the state to bring the Lopez empire down." It was quite a fight: Criminal complaints were drawn up by Macapagal's Justice Department charging the Lopez brothers with corruption in a land deal, the Bureau of Internal Revenue went after Lopez-owned sugar mills, and the Macapagal administration tried to remove Eugenio Lopez from his position on the board of Meralco, the largest electricity distributor on the main island of Luzon.

Ultimately, the moves failed, and President Macapagal was defeated in his 1965 bid for re-election by a rising young Philippine politician named Ferdinand Marcos, who enjoyed the Lopez family's support. Fernando Lopez became vice president, but the alliance did not last long. Angered when ABS-CBN started reporting on his administration's scandals, Marcos broke with the family in 1970. After he declared martial law in 1972, Marcos jailed Geny Lopez, who was Eugenio Lopez' eldest son.

After Marcos threatened to have the younger Lopez executed, Eugenio Lopez surrendered Meralco and ABS-CBN to Marcos and his cronies. The elder Lopez died of cancer in 1975. Geny, who escaped from jail two years later, lived until 1999. After the so-called People Power revolution that overthrew Marcos in 1986, President Corazon Aquino gave back ABS-CBN and a

controlling interest in Meralco to the Lopez family, whose patriarch is now Eugenio's son, Oscar Lopez.

The bad feelings between the Arroyo family—President Arroyo is married to “First Gentleman” José Miguel “Mike” Arroyo—and the Lopezes go back even further, to a clan rivalry in Iloilo province 80 years ago. In 1929, Iloilo was run by the Arroyo clan, headed by Governor Mariano Arroyo (whose grandson is current First Gentleman Mike Arroyo). Eugenio Lopez—the same Lopez who would be viciously attacked by Ferdinand Marcos in the 1970s—then owned his own father's local newspaper, *El Tiempo*, “and used it to launch himself as a power broker in Iloilo City,” Mr. McCoy writes. Governor Arroyo's problem was that he was taking bribes from an illegal gambling racket—although Governor Arroyo would deny the fact that gambling was going on when the Lopez-owned *El Tiempo* exposed it in a series of well-documented investigative reports.

A protracted battle between the Lopezes and the Arroyos ensued, which ended when U.S. colonial authorities concluded that Governor Arroyo had indeed taken bribes from the gambling syndicate, and had him sacked. “This defeat, indeed destruction, of the province's leading politician was a stunning political victory for Eugenio Lopez who, at twenty-nine, was still a neophyte publisher,” Mr. McCoy noted. The Arroyo family never really regained its political clout until Mike Arroyo married Gloria Macapagal, who became president in 2001. And now, although the president and her husband have denied any ill feelings toward the Lopezes, the recent headlines in Manila suggest otherwise.

Last year, a close political ally of the Arroyos launched the most recent Philippine government effort to wrest control of Meralco from the Lopez family. Winston Garcia is an Arroyo confidant who runs the Government Service Insurance System, the

state pension agency. The Garcia clan, based in Cebu, is widely credited with helping President Arroyo rake in an impressive 77% of Cebu's vote in the controversial 2004 presidential election. Mr. Garcia's sister Gwendolyn is Cebu's governor, having succeeded their father, also a Philippine congressman. To be sure, Meralco, the dominant electricity utility on the island of Luzon, is a classic example of a monopoly badly in need of reform. But it appears the Arroyo administration was more interested in a power grab than advancing economic efficiency. As Oscar Lopez said at the time, the government seemed bent on a “reverse privatization.”

Mr. Garcia's leverage in his battle to have the government take control of Meralco away from the Lopez family was the GSIS's 27% share in Meralco that was retained from the Marcos-era. The respected Philippine news organization, Newsbreak, reported on April 30, 2008: “A battle for control of the country's biggest electricity distributor is brewing.” The report attributed the fight between Mr. Garcia and the Lopez family to “disagreements” that “apparently boil down to personality differences.” The fiery Mr. Garcia had “irritated the Lopezes to no end by his demand for information on how the company is run,” but he failed to find any real dirt, according to the Newsbreak account.

Undeterred, Mr. Garcia announced that GSIS was planning to charge Meralco with various fraudulent activities. After a lot of back and forth, with both sides accusing the other of tampering with the legal process, not much came of this. When the Meralco board met later in May 2008, the Arroyo administration's effort to oust the Meralco management in favor of the Philippine government failed.

The fight didn't end there, however. In October 2008, GSIS sold its stake in Meralco to San Miguel Corp. for \$260.2 million. At 90 pesos (about \$1.86) per share

this was a good deal for the government, as the boardroom warfare had caused Meralco's stock to plunge to about 40 pesos. San Miguel is controlled by Danding Cojuanco, one of the original Marcos allies—the government owns part of San Miguel and Mr. Garcia sits on the board. Mr. Cojuanco has a reputation as a man who wants to control his investments, so his entry into the picture signaled that efforts to wrest control of Meralco was entering a new phase.

Yet the ever-resourceful Lopez family refused to roll over. On March 13, Meralco announced it had found a white knight in Manuel Pangilinan, the chairman of Philippine Long Distance Telephone Co. Mr. Pangilinan bought a 20% interest in Meralco from the Lopezes, and when the dust settled at Meralco's annual May shareholders meeting, PLDT and the Lopezes controlled five seats on the Meralco board, while Mr. Cojuanco's San Miguel had four.

There are reports that San Miguel now might be interested in selling its Meralco shares, which shot up to the 140-plus peso range at the end of last month. News reports suggest the Lopezes have decided to make a graceful exit from Meralco, and that the family will soon sell its remaining 13% ownership share to Mr. Pangilinan—presumably at a healthy profit. The rest of the Lopez business empire, including construction, power generation and the ABS-CBN television network, remains intact.

Meanwhile, ABS-CBN continues to shine a spotlight on President Arroyo and her husband. The network's Web site lists a dozen controversies involving Mike Arroyo—including charges of maintaining secret bank accounts and allegedly receiving "protection money" from an illegal gambling racket. The first gentleman has denied any wrongdoing.

Philippine clan rivalries aside, the more important point involves the man who is now the leading shareholder in Meralco. The PLDT's Mr. Pangilinan is a highly regarded businessman who has earned a solid reputation as a professional manager. Here's an example of how true leadership to end cronyism could transform the Philippines into an Asian tiger economy.

PLDT, years before Mr. Pangilinan came into the picture, long typified the worst sort of inefficient Philippine monopoly. All that changed in the 1990s when the strong-minded Fidel Ramos was president and began to liberalize the economy. After Mr. Ramos broke up the telecommunications monopoly, the talent of the Philippine people began to shine. The Philippines has famously become the text-messaging capital of the world—and even PLDT, the former monopoly, has learned to compete. Today, the profitable company, run by professional executives, is in the growth portfolios of sophisticated investors around the world.

President Arroyo has occasionally tinkered at the edges of real economic reforms. But critical sectors of the Philippine economy—shipping, airlines, banking, retail, agriculture—remain globally uncompetitive. Without deeper deregulation and more foreign investment, the Philippines will never become a tiger economy.

Next year, the Philippines is scheduled to hold elections to pick Ms. Arroyo's successor. The hope is that the next president will pick up where Mr. Ramos left off. Catching up with Japan may remain a forlorn hope, President Arroyo's dreams notwithstanding.

But if her successor breaks the pattern of clan feuding, there is no reason why the country can't perform as well as its Southeast Asian neighbors. ■





China Enters a Period of Eruptions

by Hugo Restall



THE RIOTING BY Uighurs in Xinjiang's capital Urumqi in early July has put the spotlight back on China's handling of its ethnic minority regions. Coming just over a year after a similar outburst in Lhasa, the incident shows that hardline policies designed to suppress dissent have fostered bitter resentment that periodically erupts. However, it would be a mistake to interpret this as a sign that China's control over Tibet and Xinjiang are unraveling. Rather the incidents should be put into a broader context of rising tensions within the broader society.

Certainly Tibet and Xinjiang pose their own unique challenges. The seeds of the current unrest were planted in the mid-1990s, when government strategy toward the restive regions shifted to a more hardline approach. That has shut off avenues for the expression of discontent, bottling up tensions until they explode.

Despite the obvious costs of this policy, Beijing apparently regards them as worth paying to maintain a tight grip on its sensitive border areas, which are regarded as

vital national interests. From its perspective, the policies may even be regarded as a success, since the migration of Han Chinese into the sparsely populated regions enhances government control over the longer term, regardless of the friction it may create.

However, seen in the context of the wider Chinese society, the upsurge in unrest raises some worrying questions for Beijing. Despite the strictest possible control, the spread of information and rights consciousness has encouraged Uighurs and Tibetans to take to the streets in spontaneous demonstrations, and violent repression has stoked further unrest. This mirrors events taking place elsewhere in China, where potent fault lines within society are bursting into the open, despite the government's best efforts to enforce a "harmonious society."

This suggests that China may be entering a period similar to that in the late 1980s, when demonstrations began to break out over a variety of issues. As during that period, the Chinese economy is under stress,

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with rising expectations running up against the reality of limited opportunities. Add in anger about corruption and abuse of power by local officials and the stage is set for what are euphemistically known as “mass incidents.” While the government may be able to manage localized riots, there is a danger of a repeat of 1989, should an event provide the impetus for the formation of a wider national protest movement.

Xinjiang Repression

THE PROXIMATE CAUSE of the rioting in Urumqi on July 5 happened thousands of miles away in Guangdong province. At a toy factory in Shaoguan, Han Chinese attacked young Uighur workers after rumors spread that they had raped several women. The state media reported that two Uighurs were killed, but graphic pictures and rumors of a higher death toll spread quickly over the Internet to Xinjiang. Complaining that the authorities were not doing enough to protect their compatriots, Uighurs took to the streets of Urumqi in an initially peaceful protest. Although the details are murky and the truth may never be known, the incident turned violent quickly after confrontations with the police.

Unrest in Xinjiang has recurred regularly over the past few decades, but several aspects of the recent chain of events represent new developments. First, the spread of information through informal channels quickly polarized both Uighur and Han communities. Paradoxically, this seems to have been encouraged by the government's strict control over the official media. Because Chinese netizens do not trust the media they are more inclined to believe reports passed along the electronic grapevine.

Moreover, even though the state has extensive mechanisms to censor online communications, it has never been able to develop the “surge capacity” to stop the flow of information during a crisis. This

also tends to make the system more unstable, as people discontented over other issues latch on to the issue of the moment.

The fact that the unrest began in Urumqi, a majority Han city, also is significant. The Uighur heartland lies to the southwest, and past unrest has been situated there. In particular, the ongoing demolition of the old city of Kashgar, the cultural capital of the Uighurs, might have been expected to provide the spark for protests. So the fact that the violence erupted in the capital suggests that efforts to pacify the indigenous population may actually be spreading discontent.

The broader issues in Xinjiang include discrimination against Uighurs in religion, education and employment. As part of a campaign against “the three evil forces”—terrorism, religious extremism and separatism—the government has taken drastic action against all forms of dissent. Muslims were forbidden to fast during Ramadan last year, and education is now in Chinese, marginalizing the use of the Uighur language. Government job advertisements often specify that applicants must be Han Chinese.

The hardline policies are largely the work of Wang Lequan, the current Communist Party secretary for Xinjiang. It's significant that Mr. Wang's protégé, Zhang Qingli, is now in charge of Tibet. The two men emphasize the development of the security services and reliance on politically reliable Han officials in order to govern. Previous initiatives that respected local culture and promoted localized government have been reversed.

For Xinjiang, a key concern of the Uighurs is the flood of Han Chinese immigration. Unlike in Tibet, Hans tend to settle down in rural areas of Xinjiang, competing directly with indigenous people for resources. During the Mao era, a quasimilitary organization, the Xinjiang Production and Construction Corps, better known as the Bingtuan, was established using gov-

ernment subsidies to pursue the goals of settling Han migrants, stabilizing the border region and developing the economy.

About 2.5 million people, or one in seven Xinjiang residents, is affiliated with the Bingtuan, which has helped push the Han percentage of the population to 41% from only 6% in 1953. The Bingtuan continues to spread settlements deep into the Uighur heartland, enjoying preferential access to irrigation and other scarce resources. In recent years, the government has also used Xinjiang as the destination for relocation projects in other provinces.

The tragedy in all this is that the relatively small Uighur population could so easily have been integrated into national life. They practice a moderate form of Islam, and while a small minority have become enamored of terrorist groups, by and large al Qaeda holds little attraction. They are also highly entrepreneurial, as might be expected given their homeland sits on the ancient Silk Road trading route. Uighurs were among the first to embrace Deng Xiaoping's reforms, prospering by setting up small businesses and moving around the country trading.

But in recent years, Uighurs have run up against official discrimination and mistrust. Licenses and other documents like passports are tightly controlled. Uighurs who grow rich and prominent independent from the Communist Party sooner or later run into difficulties. A prime example is former businesswoman Rebiya Kadeer, who now lives in exile in Washington, D.C. and is head of the Uighur World Congress.

Beijing has sought to blame the violence on orchestration by Ms. Kadeer and other overseas groups. But the reality is that China has little to fear from overseas groups, which are small and marginalized. Beijing has also forged strong ties with its Central Asian neighbors, so that it would be impossible for any separatist group to operate along the border.

Given that the hardline policies seem to be backfiring, some observers naturally ask why Beijing refuses to alter course. Yet this may be the wrong question. As Xinjiang expert and Human Rights Watch research Nicholas Bequelin explains, "From the perspective of traditional Chinese statecraft, Xinjiang is a huge success. Never before has China had such strong control over the region." He notes that government officials have accepted the fact that there is a price to be paid in terms of periodic unrest, and have made thorough preparations for dealing with it.

The Bigger Picture

WHAT MAY GIVE Chinese leaders pause, however, is the possibility that unrest in Tibet and Xinjiang will have a contagion effect on the rest of China. When information flows were easier to control, violence in far-off Xinjiang had little impact on China proper. Today, by contrast, the Xinjiang violence dominates the consciousness of the whole country.

That's because propaganda authorities are now under pressure to be proactive about reporting incidents in order to preempt the spread of rumors. Even then, as we saw recently, this coverage itself may not be accurate and may not be effective in reassuring the population. And in any case, the net effect may be to undermine confidence in the government's ability to maintain law and order. It also tends to inflame Han nationalism, which as with anti-U.S. and anti-Japanese protests in the past can quickly spin out of control.

The Xinjiang violence may be a harbinger of what China can expect as the global economic crisis continues to bite. While the macroeconomic statistics suggest China has been relatively insulated by massive government spending and new loans from the state-owned banks, on the ground the picture is more mixed. Privately owned ex-

port-oriented factories have closed, the fresh credit has tended to go into speculative investments and infrastructure spending takes time to ramp up. The net effect may be to actually exacerbate tensions, as the poor struggle to find jobs while the rich and politically well-connected have access to government contracts and easy credit.

Several recent incidents suggest that society is becoming more volatile. Most dramatically, rioters fought a pitched battle with police in Shishou, Hubei province, in late June after the suspicious death of the chef in a hotel with connections to the mayor. As is often the case in these incidents, the extent of the violence can be attributed largely to mishandling of the initial protest by local officials.

But it is not hard to conceive of circumstances that could lead to a wider protest movement. For instance, the scandal over melamine-contaminated milk powder last year was handled relatively well by the central government, with punishments handed down to those responsible and compensation paid to the victims. But were such an incident to implicate the family of top leaders, or the government fail to resolve it expeditiously, the same mechanism that spread protests from Guangdong to Xinjiang could come into play.

As the government increases its involvement in the economy through stimulus measures, there is an increased risk that corruption will again become a source of public anger. This would parallel to some extent the late 1980s, when a dual pricing system allowed Party officials in state enterprises to profit by buying commodities at state prices and then selling them on the open market. Today the mechanisms are different, such as the "land grabs" in which officials take plots from farmers and urban residents with minimal compensation and sell them on to real estate developers. The huge sums of government money being spent means that the scale of the corruption

could soon become much larger.

Another parallel to the 1980s is the increasing activism of intellectuals after decades of being silenced and coopted by the Party. Legal professionals and academics are pushing forward the idea of institutionalized rights for the ordinary citizen against abuses of power by Party officials, a movement known as "Weiquan."

The movement for political change today differs from the 1980s, however, in its emphasis on bottom-up activism, using a combination of the courts, media and other channels to put pressure on local officialdom. The recently published memoir of the late Party Secretary General Zhao Ziyang highlights how the liberal wing of the Party that once pushed for political reform was eliminated after 1989. After that, he noted, the Party elite became increasingly enmeshed in the business world, creating vested interests that seek to preserve the Party's monopoly on power.

How this shift will affect social stability remains to be seen. On the one hand, the split within the Party in 1989 was one of the key contributing factors to the protest movement gaining momentum and the ensuing crackdown. Today the Party leadership is relatively united at least on policy issues—competition is largely between competing patronage networks. The main intra-Party conflict is between the center and the regions, as local officials seek to cover up their misdeeds at the risk of spreading instability.

In other ways, the current situation could prove more volatile. As the Xinjiang experience shows, when dissatisfaction reaches the point where people no longer feel they have much to lose, even a massive security force cannot deter violence. Tensions may be highest in the minority areas, but the feeling of marginalization and victimization by Party officials is the same. "As a barometer, it shows that China is not harmonious," Mr. Bequelin concludes. ■



Beijing's Abortive Censorship Push

by Paul Mooney



T

HE SAGA OF the "Green Dam," Beijing's most recent censorship initiative, has become a Rorschach test for how one views the development of the Chinese Internet. Facing mounting opposition, the government announced it was temporarily shelving a controversial requirement to install the problem-laden filtering program on every personal computer sold in China just hours before the policy was to go into effect on July 1. Some see this as a victory for freedom of expression; others as a temporary reprieve.

Given the opaque world of Chinese politics, it's not clear whether or not "Green Dam" will reappear in a newer version. So while free-speech advocates who led a chorus of angry voices against the software are celebrating, their joy may prove premature.

The Green Dam program, produced by Jinhui Computer System, was ostensibly aimed at shutting down access to child-pornography Web sites from China. However, experts say it also had dangerous security flaws and an unprecedented ability to cen-

sor politically sensitive Web sites, which led to a groundswell of strong opposition from at home and around the world.

Non-Chinese PC manufacturers were at particular risk. "Foreign companies face a problem in that they are being required to ship software that contains known security problems and may infringe on the intellectual property of other companies," said Alex Halderman, co-author of a report on the software published last month by the University of Michigan. "On the one hand, they need to be in compliance with the law, but on the other hand, they face potential lawsuits and higher technical support costs if they do."

According to the MIIT regulations, computers must have the software installed on computer hard drives prior to sale, and every month manufacturers must provide the ministry with a sales report. "The Green Dam Mandate has raised international concern," said Richard Buan-gan, deputy press spokesman at the United States Embassy in Beijing. "The U.S. Gov-

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ernment shares the concerns raised by Chinese citizens and international technology companies regarding the mandate's potential impact on trade and the free flow of information, as well as serious technical issues raised by use of the software."

The biggest immediate problem is the gaps in security, which soon had Chinese calling it "Leaky Dam." According to the report by the University of Michigan, Web sites can make use of vulnerabilities in the software to take control of computers that visit their sites. "This could allow malicious sites to steal private data, send spam, or enlist the computer in a botnet," said the report, which said it discovered serious security vulnerabilities within just 12 hours, adding that these "may be only the tip of the iceberg." The authors said that they were encouraged to see that the Chinese developers had quickly updated the program, rectifying some of the security issues. However, they warned that there were likely still undiscovered problems.

The report's authors advised users who had already installed the program to uninstall it. "Green Dam seems to have been written very quickly and designed with little attention to security," said Mr. Halderman. "As a result, the problems seem to run deep, and it may take many months of additional engineering and testing to make the software reasonably safe." Experts were wary of what would happen immediately after the July 1 deadline. Mathew McDougall, chief executive officer of the Sinotech Group, a digital marketing firm in Beijing, said the installation of the program would have been "a red light for people to hack it or expose its weaknesses." "The potential for trouble is huge," said an American businessman who has been working in China for three decades, but who declined to be named. "It could be a disaster ... It works from a 'Big Brother' aspect, but doesn't appear to be a good piece of software," he said.

And it's this Big Brother aspect that has many people worried. "One danger of Internet filtering software is that it can be programmed to filter out any list of sites," said Mr. Halderman. "Clearly, the government and Green Dam's developers decided that they wanted it to filter out more than pornography."

The OpenNet Initiative, a joint project by Cambridge, Oxford, Harvard and the University of Toronto, said Green Dam "exerts unprecedented controls," adding that the version it tested operating under default settings "is far more intrusive than any other content-control software we have reviewed." The report adds that the software can block access to a wide range of Web sites, including porn, gaming, gay content, religious sites and political themes, while it "actively monitors individual computer behavior." The report also stated that Green Dam also has the ability to shut down applications, a capability that is set off by attempts to access sites on a blacklist that includes terms such as the banned group Falun Gong and the June 4, 1989 massacre. The blacklist can be remotely updated regularly.

The software could result in even more Web sites being blocked by the Chinese government—some without reason. "The impact will come on Web sites because they may inadvertently get blocked," said Mr. McDougall. "There might be some internal teething problems and sites could be blocked completely." "There are 30,000 Internet police censors," he said. "It will be very easy for them to tick a few boxes, but difficult for them to untick them."

The program's maker Jinhui has insisted that the software can be easily deleted or closed by users. "The current version uninstalls itself completely, but it leaves behind log files of Web sites visited and filtered, as well as images of what's been on the computer screen recently," said Mr. Halderman. "It's possible for us-

ers to clean these up themselves, but most people probably will not realize that these files are there."

Ironically, the 41.7 million yuan (\$6.1 million) program, which is supposed to detect and filter "flesh-colored images," doesn't seem to do a good job of this; it sometimes filters out cartoon figures such as pigs, while completely missing naked blacks, according to people who have tested the program.

International and domestic opposition to the program was unprecedented, which likely pressured the Chinese government to reconsider its plan. On June 26, the European Union charged China with "unacceptable" Internet censorship. "The aim of this Internet filter, contrary to what Chinese authorities contend, is clearly to censor Internet and limit freedom of expression," the European Commission said in a statement. Dozens of chambers of commerce and industrial associations have also urged China to reconsider its Green Dam policy.

The Obama administration took a strong stance on the issue. U.S. Trade Representative Ron Kirk and Commerce Secretary Gary Locke sent a joint letter to the Chinese ministers of technology and economics on June 24 urging them to reconsider the decision, arguing that the mandate "poses a serious barrier to trade" and may violate World Trade Organization regulations as American companies were only given six weeks to comply. "China is putting companies in an untenable position by requiring them with virtually no public notice to preinstall software that appears to have broad-based censorship implications and network security issues," Mr. Locke stated in a news release.

Domestically Green Dam also provoked

ire. Hu Shuli, the editor of the respected *Caijing* magazine, criticized the plan, saying citizens need to collect information for their daily life and work, and that Chinese should be allowed to filter unwanted information on their own. An online survey by sina.com.cn, China's biggest portal, showed that more than 80% of those responding said they were not willing to use the program. Chinese bloggers posted sexually suggestive cartoon images of "Green Dam Girl" mocking the program. Some Chinese called for a boycott of manufacturers and stores that follow the order to preinstall

Green Dam; outspoken artist Ai Weiwei called for a boycott of the entire Internet on July 1.

What was meant to be a protest in Beijing on the evening of July 1 turned into a huge party that night after the news of the delay

was announced. Mr. Ai spoke at the party calling the decision a victory for public opinion.

However, not everyone was so sanguine. Xiao Qiang, an adjunct professor of journalism at the University of California at Berkeley, commented: "The government is unlikely to abandon its policy to control online content and user behavior. Other measures similar to Green Dam will likely re-emerge in more subtle forms." Nevertheless, he acknowledged that "the strong domestic opposition has been crucial in terms of promoting public awareness of censorship and therefore had more lasting impact in terms of putting constraints on the government censorship policy."

On July 1, the official *China Daily*, quoting an unnamed official of the ministry, confirmed Green Dam would rise again. "The government will definitely carry on the directive on Green Dam," the official said. "It's just a matter of time." ■

Ostensibly the software targets child pornography, but many suspect a wider censorship agenda.



Inside the Papuan Resistance

by Bertil Lintner

THE INDONESIAN presidential election on July 8 seems likely to give Susilo Bambang Yudhoyono another five years in office. He is ahead of other candidates in opinion polls, and his Democratic Party emerged as the country's largest in the parliamentary elections in April. A high degree of normality and stability has returned to Indonesia after years of political and social turmoil. Only a decade ago, many feared that Indonesia would break up along ethnic lines and become a "Southeast Asian Yugoslavia."

In the end, only East Timor went its own way. But that was a special case, according to the official line from Jakarta and also foreign governments. When Indonesia was proclaimed an independent state in 1945, it laid claims to all the territories of the former Dutch East Indies, which did not include the then-Portuguese colony on the eastern half of Timor island. It was invaded in 1975 and formally annexed by Indonesia the following year—a move that was not recognized by the international community. East Timor remained on the United Nations' international list of territo-

ries that still had to be decolonized, which made it possible for the world body to intervene in 1998 and supervise a referendum on independence in 1999. East Timor became a fully independent republic in 2002.

Aceh on the northern tip of Sumatra had a far more complicated, internal insurgency. But, in August 2005, an accord was reached between the Indonesian government and the previously separatist Free Aceh Movement, or Gerakan Aceh Merdeka, ending decades of strife in that troubled territory by granting it autonomy. Less powerful centrifugal forces as well as sectarian violence in other parts of Sumatra, in the South Moluccas, or Maluku, Borneo and elsewhere, appear to have faded away.

Only one major separatist issue remains a thorn in President Yudhoyono's side: the long-simmering conflict in the western Indonesian part of the island of New Guinea. Since 2003, the area has been divided into two provinces—Papua and West Papua, but referred to by the resistance only as "West Papua"—and is almost constantly rocked by

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antigovernment protests, and the hoisting of the "Morning Star" independence flag, which is a crime in Indonesia.

In the most recent incident, demonstrators and security forces clashed in Nabire on April 6, just a few days before Indonesia's parliamentary election. According to the Australia-based NGO Institute for Papuan Advocacy and Human Rights, nine people were shot by security forces and at least one policeman was injured by traditional arrows fired by the protesters. In April 2008, several hundred demonstrators took to the streets of Jayapura, the capital of the province of Papua and previously of the entire Indonesian-held New Guinea. And in January this year, hundreds of protesters, some armed with machetes and other crude weapons, besieged a police station in the coastal Papuan town of Timika after hearing that a man had been shot during a fight between off-duty officers and local tribesmen. The police opened fire wounding at least four people.

The Indonesian English-language daily Jakarta Globe reported in its January 28 issue: "The [Indonesian] National Human Rights Commission has been monitoring the Timika police because of numerous cases of officers as well as military personnel allegedly shooting civilians, many of which remain unresolved. Last year, a 40-year-old man was shot and killed while attending a festival said to have been linked to the outlawed Free Papua Movement." The report continued: "Pro-independence sentiment in Papua has increased in recent years, fueled in part by discontent that profits from its natural resources are being siphoned out of the province with the assistance of the central government. U.S.-based Freeport McMoran Copper and Gold Co. operates mines in Papua."

Also in January this year, 11 West Papuans were found guilty of subversion and sentenced to three and three-and-a-half year prison sentences. In March last year,

they had taken part in a demonstration in the town of Manokwari, where the Morning Star flag had been displayed. According to a report from the Institute for Papuan Advocacy and Human Rights: "The panel of judges led by Elsa Mutiara Napitupulu said that the men had posed a threat to the integrity of the Indonesian state in seeking the separation of West Papua. The judgment said that there had been an increase in separatist activities in the recent past throughout the whole of West Papua which were being organized from abroad."

In today's world, that is not far-fetched. The Free Papua Movement, Organisasi Papua Merdeka, maintains an office in Stockholm, Sweden, from where they are in regular e-mail contact with activists in the territory, halfway around the globe. And for the exiled leaders of the anti-Indonesian movement in West Papua, there is only one way forward for their struggle: total independence. They reject a negotiated autonomy deal, similar to what GAM has achieved for Aceh. "Autonomy is not a lasting solution," Ruben Maury from the OPM office in Sweden said. "The people want independence, not autonomy. We've already made up our minds."

What the people of Indonesian New Guinea actually want is impossible to ascertain—but the OPM did indeed unilaterally declare independence on July 1, 1971. Yet while international rights groups, including Amnesty International and Human Rights Watch, have expressed concern over human-rights abuses in the area, the OPM's plea for independence has found few sympathizers among foreign governments. The only exceptions are small Pacific island states such as Vanuatu—where the OPM maintains another liaison office—and Nauru. No major powers, it seems, wants to see the dismemberment of Indonesia's sprawling archipelago, which many thought possible after former strongman Suharto fell in 1998 and liberal decentralization mea-

tures were passed. The buck stopped at East Timor.

But West Papua is still a borderline case. When the Dutch finally left Indonesia in 1949—four years after the declaration of independence—they held on to their western half of New Guinea. They argued that the territory was culturally different from the rest of the old colony and, if ceded to Indonesia, the Papuans would be exploited by the more politically and economically sophisticated Javanese. The new Indonesian nation, however, saw it differently. One of the catch phrases of independence leader Sukarno was of Indonesian sovereignty “from Sabang to Merauke,” from Sabang on a small island off the northwestern tip of Sumatra to the town

on Merauke in southeastern Papua, i.e., the entire length and breadth of the former Dutch East Indies.

The Dutch initially ignored such sovereignty slogans and throughout the 1950s initiated several moves to make their part of New Guinea an independent state. Basic education was improved, a naval academy was opened, Papuans began to serve in the military as well as civil services and local elections were held in December 1961. The territory even adopted its own national anthem and flag with the white Morning Star, symbolizing the hope for a new day era.

All this happened at a time when Southeast Asia was in deep turmoil. Communist movements were strong throughout the region and especially in Indonesia, where it was a powerful and legal political party. The United States warned the Netherlands against trying to defend its New Guinean possession if Jakarta attempted to use force to extend its writ to Merauke. “We’re victims of Cold War politics,” says Daniel Kafiari, who, together with Mr. Maury, heads

the OPM’s Stockholm office. “No one ever asked us what we wanted. It all happened above our heads.”

Among the many documents Mr. Kafiari carries in his briefcase is a copy of a secret letter from former U.S. President John F. Kennedy to then Dutch Prime Minister J E de Quay dated April 2, 1962. In that document, Kennedy warned that “this could be a war in which neither the Netherlands nor the West could win in any real sense. Whatever the outcome of particular mili-

tary encounters, the entire free world position in Asia would be seriously damaged. Only the communists would benefit from such a conflict.” The document continues: “If the Indonesian Army were committed to all-out war

President Yudhoyono may be forced to take a fresh look at the Papuan resistance—as it is not likely to go away.

against the Netherlands, the moderate elements within the Army and the country would be quickly eliminated, leaving a clear field for communist intervention. If Indonesia were to succumb to communism in these circumstances, the whole non-communist position in Vietnam, Thailand and Malaya would be in grave peril, and as you know these are areas in which we in the United States have heavy commitments and burdens.”

The Netherlands gave in and, on Aug. 15, 1962, signed an agreement in New York with Indonesia according to which the United Nations would assume temporary control over the territory. It would then be transferred to Indonesia—but on the condition that the Papuans would have the right to decide their own future. On May 1, 1963, Indonesia took full charge of the territory and first renamed it West Irian and later Irian Jaya. In mid-1969, the promised “referendum” was eventually held, but The Act of Free Choice, as it was called, was open only to 1,025 handpicked

delegates, which predictably all voted in favor of integration with Indonesia. On Nov. 19, 1969, the U.N. General Assembly accepted the results and Western countries turned a deaf ear to local protests over the dubious circumstances of the vote.

By 1965, the OPM had already been established along with an armed wing, the National Liberation Army, or OPM-TPN, and hit-and-run attacks were launched in the highlands. Mr. Maury joined the OPM in 1970, abandoning his family and a job as a pharmacist in Jayapura. He had been sent to study in the Netherlands in the 1950s as part of preparations for independence from the then Dutch colony. A better-educated middle class, it was thought, was needed to run an independent state and Mr. Maury was one of the well-schooled candidates.

In 1962, he and five other Papuans were invited to visit Indonesia, where they met President Sukarno and other state leaders. But the Papuans made no promises to Jakarta: "We told them we were on a study tour," Mr. Maury says. "They sent beautiful girls to our hotel rooms, but I didn't give in to the temptation, or to their suggestion that we should join Indonesia."

Mr. Maury spent eight years in the jungles and highlands of West Papua before he and some of his ill-equipped followers crossed into independent Papua New Guinea in 1978. But the newly independent state did not want to antagonize its powerful Indonesian neighbor, and promptly arrested the OPM fighters. In 1979, they were all released and four of them were accepted as political refugees in Sweden. Among them was Jacob Prai, one of the founders of the OPM, and John Otto Ondawame, who now represents the movement in Port Vila, Vanuatu. Mr. Kafiarr arrived in Sweden a year later and the OPM established an information office in Stockholm.

They are not the only Third World revolutionary movement to have sought sanctuary in Sweden. Hasan di Tiro, the leader

of the Acehnese independence movement who was able to return to Indonesia following the 2005 accords, also arrived there in the 1970s, as did representatives of the Muslim separatists in Southern Thailand and cadre from the insurgent Communist New People's Army in the Philippines. Later, even members of Peru's radical Maoist Shining Path movement took refuge in Sweden. They were all drawn by Sweden's then liberal refugee policy and it was difficult for Swedish authorities to check the background of some of the less attractive armed groups' members. That has helped fuel a popular backlash against political-asylum seekers there, which, in recent years, has led to electoral gains by anti-immigrant groups.

But as Sweden's welcome cools, the Papuans may fare better than others. Although they look as foreign as other refugees, there is plenty of interest in New Guinea in Sweden. This is largely thanks to a Swedish aristocrat and explorer, Sten Bergman, who in the 1950s spent several years in western New Guinea. His best-selling book, *My Father is a Cannibal*, has been translated into several languages, and helped preserve a somewhat romantic image of life in territory's remote villages. Bergman was indeed "adopted" by a village chief who once had eaten human flesh and was dressed in little more than a penis-sheath.

For their part, the OPM delegates do not wish to capitalize on this romanticized past, but rather are trying to reach out to governments all over the world to promote their cause. In 1987, Mr. Kafiarr went to Vanuatu where he met Walter Lini, the country's first prime minister. At the time, Lini and Vanuatu provided some support for the Kanak indigenous independent movement in French-held New Caledonia and was then the only country in the region to support East Timor's quest for independence.

Mr. Kafiarr remained in Vanuatu for two years before returning to Sweden, and the

Vanuatu office has been taken over by Mr. Ondawame and Andy Ayamiseba, who the Stockholm-based representatives see as closet moles for Indonesia. That's in part a reflection of the deep-seated factionalism within the OPM, which is bidding to forge a unified state from an area with hundreds of different languages and clans, many of which have historically been at war with each other.

In comparison, the Aceh movement was fairly unified and many feel the OPM would find it difficult to establish a coherent sense of nationhood among the Papuans. They just need look across the border into Papua New Guinea, which many observers consider a nearly failed state with rampant crime, murder rates among the world's highest, and severe environmental degradation driven by an economy almost entirely dependent on the export of raw natural resources. Still, the OPM's Stockholm representatives see separation from Indonesia as just the first step; the next would be a union with Papua New Guinea. "Historically, our ties have been with Oceania. Our connections have always been eastwards, not westwards," Mr. Kafiari says. "The border between western and eastern New Guinea was drawn up in Europe in the late 19th century, with a pen and a ruler," he asserts. "It's a straight line. People have relatives on both side of the frontier."

But before independence or unification with New Guinea could happen—if that ever materialized—the western half would have to deal with fundamental demographic changes that have taken place over the past few decades. Between 1975 and 1995, a government-sponsored migration program resettled tens of thousands of people, mainly from Java, in Irian Jaya. In addition, many people from other, more densely populated parts of Indonesia moved to the territory, attracted by business opportunities and the search for new lands to cultivate. In a July 2007 document titled "West Pap-

uan Churches' Deepest Concern and Appeal to the International Community," local church leaders stated: "The current composition of the West Papuan population is 30% native and 70% migrants. The native West Papuans have been marginalized in all aspects of life."

Even if exaggerated, the statement reflects the new demographic composition and cause for potential conflicts in Papuan society. The native Papuans are mostly Animist or Christian, while the new migrants are predominantly Muslim. Groups of Islamic extremists are also known to have visited the territory, leading to fears that the kind of sectarian fighting that tore apart the Maluku islands from 2000 to 2002 could one day erupt in Papua and West Papua. The delicate demographic and religious balance in Indonesia's two easternmost provinces is perhaps the reason why outside powers seem to prefer a continuation of the status quo rather than advocate the OPM's separation from Indonesia. The Papuans may be victims of Cold War politics, as Mr. Maury and Mr. Kafiari argue, but two generations later the situation has become more ethnically complicated.

As such, unrest in the area is likely to continue, even if the OPM these days lacks the forces to resist Indonesia's mighty military. However, recent demonstrations in Manokwari, Jayapura and elsewhere could serve as warnings for more conflict and resistance to come in one of Indonesia's most remote and strife-torn provinces. The OPM's armed struggle in the highlands has been succeeded by a civil movement in urban areas, and that could be even more difficult for the central authorities to contain than jungle guerrilla warfare. After decades of mismanagement and dubious policies, President Yudhoyono, if re-elected, may be forced to take a fresh look at the Papuan issue—because it is not likely to go away like other, more easily solvable ethnic conflicts in the Indonesian archipelago. ■



REVIEWS



**BANGLADESH AND PAKISTAN:
FLIRTING WITH FAILURE
IN SOUTH ASIA**

by William B. Milam
Columbia University Press,
256 pages, \$35

Reviewed by SADANAND DHUME

AS THE RECENT coinage “AfPak” takes hold in policy circles and the popular imagination, Pakistan has begun to look eerily similar to its northern neighbor. Like Afghanistan, Pakistan is racked by an anti-Western insurgency that draws inspiration from a harsh form of Islam. Both countries rely on the generosity of international donors to remain solvent. Nonetheless, in both Islamabad and Kabul nominally pro-American governments perch precariously atop a seething mass of anti-American sentiment.

However, once you step away from the 24-hour news cycle, it makes less sense to compare Pakistan with Afghanistan than with the subcontinent’s other major Muslim-majority country: Bangladesh. Indeed, until it became independent in 1971 Bangladesh was known as East Pakistan, the Bengali-speaking wing of a country carved out of British India in 1947 as a homeland for the subcontinent’s Muslims.

As William Milam, a former U.S. ambassador to both Dhaka and Islamabad, points out in his thoughtful new book, both countries have been governed by their militaries for extended spells. Both have thrown

up corrupt and incompetent civilian politicians who give democracy a bad name. Both have done an abysmal job of safeguarding the rights of religious minorities. Both explain, in large measure, the economic stagnation of South Asia compared to the relative dynamism of Southeast Asia.

Mr. Milam’s book covers everything from the history of Pakistan’s judiciary to the role of NGOs in Bangladeshi development. But he brings the bulk of his experience and insight to bear on two questions that have wider regional implications. Can Pakistan and Bangladesh—both currently enjoying a spell of civilian rule—allow democracy to take root? And as nations founded on the basis of Islam can they blunt the rise of Islamism, the totalitarian form of the faith that seeks to impose itself on everything from dress codes to banking regulations to criminal law?

For Mr. Milam, there’s little cause for optimism. He believes that “it will prove exceedingly difficult for civilians to unravel Pakistan’s 30-year evolution toward a praetorian state.” As for Bangladesh, the perpetual tit-for-tat between its two leading politicians, Sheikh Hasina and Khaleda Zia, is emblematic of the country’s “poisonous, zero-sum political culture.” Against this backdrop, he sees Islamists—motivated, well-organized and used to being coddled rather than confronted—marching steadily toward their goal of capturing power.

At the heart of both countries’ problems lies an inability to settle on a national identity. In Pakistan this issue is particularly acute. Was it created simply as a homeland for Indian Muslims who chose not to live in a Hindu-majority country? Or was it always meant to be a messianic flag bearer

∞ Mr. Dhume is the author of *My Friend the Fanatic*, a travelogue about radical Islam in Indonesia. He lives in Washington, D.C. and New Delhi.

for pan-Islamism, the world's first modern nation formed on the basis of faith alone? The former interpretation, favored by the nation's Anglicized founder, Mohammed Ali Jinnah, and by many of the country's English-speaking elites, is broadly compatible with contemporary ideas of democracy and human rights. The latter leads naturally to one of Pakistan's most fraught internal debates. Why demand a country, argue the Islamists, if not to implement divinely ordained Islamic law?

Meanwhile, Bangladesh yoyos between two poles: Bengali nationalism and Bangladeshi nationalism. Bengali nationalists, represented by Ms. Hasina's Awami League, emphasize an identity based on language and culture. By this definition most Bangladeshis are Bengalis who happen to be Muslim. Their closest cultural ties are with fellow Bengali-speakers in the Hindu-majority Indian state of West Bengal. In contrast Bangladeshi nationalists, represented by Ms. Zia's Bangladesh Nationalist Party, define nationhood more by faith than by language. India-baiting is central to their appeal. Their affinities, both cultural and political, lie with other Muslim-majority nations. Historically, the BNP has had no trouble aligning itself with the fundamentalist Jamaat-e-Islami.

To his credit, Mr. Milam is unusually alert to how small symbolic gestures can have unintended long-term consequences. He traces Pakistan's current predicament to a series of apparently innocuous concessions made to Islamists by a Scotch-sipping socialist, Prime Minister Zulfikar Ali Bhutto. In 1973, Bhutto enshrined Islam as the state religion of Pakistan in a new constitution. He declared high office—the presidency and the prime ministership—off limits to non-Muslims, and appointed a Council of

Islamic Ideology to ensure that all national laws conformed to religious orthodoxy.

Giving in to a long-standing demand of the Jamaat-e-Islami, Bhutto declared the followers of the tiny Ahmadiyya sect non-Muslims for their belief that their founder, like the prophet Mohammed, was the bearer of divine revelation. Bhutto also banned alcohol and switched the national holiday from Sunday to Friday. Spurred by a belief that it was Pakistan's destiny to lead the Islamic world, Bhutto vowed to acquire nuclear weapons, even if it meant his countrymen would have to "eat grass" to achieve this goal.

In 1977, Bhutto was overthrown in a military coup. Under his successor, the deeply pious General Muhammad Zia-ul-Haq (1977-88), the army became a central player in the extension of Pakistan as an ideological state. Zia filled key slots in the bureaucracy and state-owned companies with military officers and exponentially increased the army's role in business. Under him the notorious Inter-Services Intelligence began to take shape in its current form—as an alternate power center with an ambitious agenda of its own. Domestically, the ISI was used to manipulate elections, monitor political opponents and influence civil society. Internationally, it became the hub of violence directed against Afghanistan and India.

Zia also attempted to Islamize Pakistan's legal system by introducing orthodox punishments such as stoning for adultery. Shariah courts sprung up across the country and the government moved to prevent banks from charging interest. Mainstream Pakistani textbooks began to inculcate hatred against non-Muslims. Not surprisingly, the general's legacy, says Mr. Milam, was a less tolerant and increasingly Talibanized



society. Subsequent rulers have shown neither the capacity nor the will to change the fundamentals of the state bequeathed to them by Zia—one where pan-Islamism is the animating principle and the military by far the most powerful institution.

In some ways, Bangladesh has followed a similar path. In 1988, another military ruler, General Hossain Muhammad Ershad, amended the constitution to make Islam the state religion. The widely tolerated persecution of the minority Hindu community has led to their numbers declining from 23% of the population at Partition in 1947 to barely 9% by 2002. In recent years, jihadist groups such as Harakat-ul-Jihad-al-Islami have used Bangladesh as a safe haven.

Mr. Milam can't be faulted for pessimism. However, he fails to adequately recognize the importance of one glaring difference between Pakistan and Bangladesh. In Bangladesh—as in Indonesia and Turkey—the idea of a pluralistic nation may be hotly contested, but at least it exists. Perhaps this alone is not enough to foster a hopeful outlook for one of Asia's worst governed countries, yet at the very least it lowers the odds of the former East Pakistan following its Western sibling off the precipice of anarchy and bloodshed.

DEPENDENT COMMUNITIES:

AID AND POLITICS

IN CAMBODIA AND EAST TIMOR

by Caroline Hughes

Cornell University Southeast Asia

Program, 265 pages, \$23.95

Reviewed by GEOFFREY CAIN

IN FEBRUARY 1992, an army of 16,000 peacekeepers landed in war-torn Cambodia, part of the United Nation's most expensive peacekeeping operation at the time, the United

Nations Transitional Authority in Cambodia. The U.N. dubbed the \$1.6 billion mission a "complex peacebuilding operation," the first that let its personnel organize an election—a duty once reserved for governments—much to the dismay of the ruling Cambodian People's Party. These new powers signaled a break from the Cold War era of negotiation-driven peacekeeping. Before, "blue helmets" only observed ceasefires; now, they were rebuilding a country.

Another such operation—this time with higher stakes—jolted into East Timor seven years later after Indonesia left its poorest province in 1999. Not only was the U.N. to rebuild a country, but now they would use force to keep order. At 9,000 troops and with a \$500 million budget, the U.N. Transitional Administration in East Timor (UNTAET) and its predecessor, the International Force for East Timor, weren't as expansive as UNTAC, but it had a key similarity with its Cambodian counterpart. Both U.N. operations dumped large sums of cash into the respective countries—and after they left, donors gave even larger amounts of aid—which posed unusual challenges for East Timor and Cambodia as they struggled to manage funds without angering donors.

In *Dependent Communities*, Caroline Hughes gives a thoughtful and balanced analysis of postpeacekeeping Cambodia and East Timor, picking apart the factors that led to the successes and failures of aid. Ms. Hughes, a development specialist and professor at Murdoch University in Australia, argues that donor aid has held both countries hostage, with their leaders often having to pick between international donors or local villagers, and shaky global market forces or more stable economic

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nationalism. Aid pressure helps prop up what Ms. Hughes calls “imagined communities”—citing Benedict Anderson—or the illusion that people are part of a certain nation or ethnicity.

Abstract social theories aside, Ms. Hughes uses concrete, fact-driven analysis to expose some under-reported effects of donor aid on postconflict countries. Cambodia, coming out of a decade of Vietnamese occupation in the 1980s, had a government that saw foreign donors and development experts as intruders, and responded by circulating funds in secret to buy out political opposition and wrestle power away from nongovernmental organizations. East Timor, on the other hand, took a different approach: Prime Minister José Ramos-Horta catered to the demands of the World Bank, cracking down on corruption and marketing his country as donor-friendly, even though it collapsed into violence in 2006. While corruption quickly became endemic in Cambodia, evidence was sparse that it crept into East Timor at the time.

Ms. Hughes is at her best when she explores how donor aid, divided into rigid programs, hinders efficient government responses. Quoting a departmental director at the Cambodian Ministry of Health, she writes, “In 1998, there was cholera in Takeo, and it was difficult to send information to the center. The Public Health Department had a fax machine, but the fax was only supposed to be for that organization, and the donors asked, ‘Why have you used these resources for other things?’” She goes on to conclude, “Because funding agencies distrusted the Cambodian government, they preferred this state of affairs to one where money would be poured into the country, to be

used at the government’s discretion and diverted to political objectives that were not sanctioned by donors.” Rigidity in donors’ programs, then, is a less risky way of funding a government, but hinders their flexibility in dealing with issues.

In particular, East Timor and Cambodia’s handling of oil reserves shows how both countries interact with donors and developing politics at home. Australia, which hoped to retain its rights to oil in the Timor Sea as a stipulation to aid, approached East Timor with skepticism when the island demanded rights to cer-

Ms. Hughes is at her best when she explores how donor aid, divided into rigid programs, hinders efficient government.

tain blocks. After all, a 1989 treaty between Australia and Indonesia gave disputed fields to Australia, thus giving it a more “legitimate” claim to the resources. Yet Prime Minister Mari Alkatiri, an economic national-

ist who succeeded Mr. Ramos-Horta, saw the situation as a repeat of Indonesian colonization. The government responded to donor concerns, then, with a compromise between resistance and concession by setting up a petroleum fund operated outside of the island, which would hold onto oil revenues in trust until the next generation. The decision coincided with East Timor’s policy of brash transparency for donors under Mr. Ramos-Horta.

Cambodia, on the contrary, has not shown transparency in its oil concessions, regardless of the watchful eyes of donors. The Cambodian National Petroleum Authority does not disclose information about its negotiations, Ms. Hughes writes. Oil revenues, which could reach into the billions of dollars, offer the government the possibility of shedding its aid dependency, requiring them to keep a tight grip on the funds.

In her analysis of donors in Cambodia, Ms. Hughes disappointingly jumps over

China, which this year overtook the United States, European Union and Japan in donor aid. While she does note China's no-strings-attached annual aid and its effects on human rights, she restricts the discussion to one page. More recent prospective donors, like Kuwait and the United Arab Emirates, get no mention at all, narrowing her book to the once dominant Western powers and Japan.

Regardless, *Dependent Communities* is worth a read for its quality of research. But it is best supplemented with Joshua Kurlantzick's *Charm Offensive: How China's Soft Power is Transforming the World* for an examination of Chinese aid and its effects.

**THROUGH THE LOOKING GLASS:
CHINA'S FOREIGN JOURNALISTS
FROM OPIUM WARS TO MAO**
by Paul French
Hong Kong University Press,
240 pages, \$39.50

Reviewed by REBECCA KANTHOR

ACCORDING TO PAUL French, however important and exciting the "China story" is today, a century ago it was much more so. Foreign-media coverage of pre-1949 China, he argues in his new book, was greater in scope than in recent years. Mr. French reminds us, for instance, that in the latter half of the 20th century there were more publications dedicated to China issues than there are today, as well as a number of locally edited papers that no longer exist. China was a sought-after assignment for foreign journalists, drawing in the likes of Jack London and Ernest Hemingway.

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Mr. French—a China commentator and founder of the research consultancy Access Asia—has previously tackled the subject of foreign journalists in China in his biography *Carl Crow, a Tough Old China Hand* (2007). This time, however, he's attempted to write about not just one reporter's experiences, but the whole lot of them. It's an enormous task: Mr. French covers print, radio, photography and film, as well as the foreign press in various languages over a span of more than a century and a half.

Through the Looking Glass is an enjoyable read, with just the right blend of historical context, analysis and behind the scenes anecdotes. In short, the book is a written version of what you might expect from a drink at the bar with an old China-hand reporter, with all the juicy details about journalists and the stories they covered.

Mr. French has an eye for the bizarre, and his subject matter thankfully provides him with no shortage of strange stories to comment on. Of the many fascinating and well-known China journalists that Mr. French covers, Emily Hahn is one of the most interesting. Writing for the North-China Daily News and the New Yorker, she was known as quite the character, not least of all for frequently bringing her pet gibbon to dinner parties, where he would proceed to act in famously inappropriate ways. She was also known for immersing herself in Chinese culture to the point that she became the concubine of a Chinese poet and an opium addict.

There were more than a few real characters in the old China press corps and Mr. French gives us the highlights of many of them. But he also sheds light on those whose lives and work were overshadowed by the stars, such as the researchers and ghostwriters for the larger-than-life G.E. Morrison of the Times. J.O.P. Bland and Sir Edmund Backhouse translated for him, researched his stories and some-

times even wrote his articles, yet received little credit.

Among the press corps, there was enough intrigue, relationships and sequels for several soap-opera plots. The journalists whose lives are explored in these pages include those who climbed over imperial court walls to chase an interview, were attacked by bandits on horses, filed stories from a remote earthquake zone by mule, were challenged to a duel, had to hire bodyguards to protect them, fell in love with fellow journalists and perhaps bedded the Empress Dowager herself. The anecdotes of their personal idiosyncrasies and amazing life experiences are part of what makes the book so enjoyable to read.

Lest you think that the old days of foreign journalism in China were all glamour and excitement, there were also plenty of challenges. Whereas journalists today can file stories and images through email and file sharing, just setting up the first telegraphy transmitters was a challenge that took several years, during which time the installer faced threats of vandalism, murder, capture by Mongolian warlords, spying accusations and quarantine in a cattle truck to top it all off.

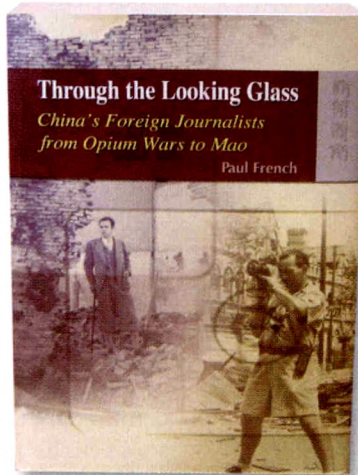
Mr. French explains in the introduction that his Alice in Wonderland nod in the title refers to the never-ending desire by most of the old China press corps to truly understand China and impart their understanding to their readers. Inevitably, they were left as conflicted as Edwin Dingle was, when he said, "No exaggeration is it to say that the eyes of the world are upon China, it is equally safe to say that, whilst all is open and may be seen, little is under-

stood." That didn't stop them from trying though.

Mr. French's description of the old China press corps and the China they reported on is also a fascinating looking glass through which to observe the foreign press in a more modern China. In the adventures and misadventures of an intrepid group of journalists, one sees the forebears of today's most respected writers reporting from China. When we read of censorship, threats to safety, government suppression, entreaties to foreign journalists, protests, antforeign sentiment and the lengths to which some of the journalists would go to get to a source, their stories certainly sound familiar. And similar to how today's Chinese netizens question and confront local and foreign media alike about the accuracy of photos and bias in the news, earlier readers also

expressed doubts over investigated news reports. In China, Peter Fleming once commented, "there is always something worth watching."

In the end, Mr. French's attempt to take on such a broad range of topics may leave readers a bit wanting. It is understandable that with such a huge span of time and such a varied cast of characters that this book can only serve to be an introduction to a wealth of subject matter, serving as an entry to a fascinating bank of stories. The author's primary focus is on reporters writing in English, although to be fair, German, French, Italian, Japanese and Russian press are all covered to some extent. The descriptions of female reporters, the Jewish press, radio stations, photography and newsreels of China, to name a few, as well as the lives of several of the



reporters he describes more briefly, are fascinating, and could provide material for several more volumes. Hopefully, Mr. French will pursue some of these related topics in future books.

He teases us at the end with the promise of more stories to tell, which leaves us wondering, 100 years from now, how we will recall the foreign journalists in today's China. But that, as Mr. French says, is another story for another day.

OFFENCE: THE MUSLIM CASE

by Kamila Shamsie

Seagull Books, 82 pages, \$20

OFFENCE: THE HINDU CASE

by Salil Tripathi

Seagull Books, 102 pages, \$20

OFFENCE: THE JEWISH CASE

by Brian Klug

Seagull Books, 102 pages, \$20

OFFENCE: THE CHRISTIAN CASE

by Irena Maryniak

Seagull Books, 112 pages, \$20

TAKING OFFENCE

by Casper Melville

Seagull Books, 112 pages, \$20

GIVING OFFENCE

by Martin Rowson

Seagull Books, 112 pages \$20

Reviewed by BEN FRUMIN

MORE THAN TWO decades ago, Muslims around the world took offense at Salman Rushdie's fourth novel, *The Satanic Verses*, its cutting portrayal of the prophet Muhammad and his wives and its implications that the Quran is fallible. In response to the outcry, India banned the book barely a week after it was published. Several Muslim-major-

ity countries followed. Tens of thousands protested. Iran's supreme leader issued a fatwa against Mr. Rushdie and called for the British-Indian author's execution. The book's Japanese translator was stabbed to death outside his university office. The novel's Italian translator was also stabbed and the Norwegian publisher shot, though both survived. Mr. Rushdie went into hiding for several years.

Mr. Rushdie's troubling story plays a prominent role in this excellent new six-essay series on religion and offense, and how our relatively recent recognition of the rights and respect due to religious groups ought to be balanced with the almost-as-recent acknowledgement of the right of anyone to say what they please, regardless of who it hurts. As the Indian author Salil Tripathi writes in *Offence: The Hindu Case*, "One of the more curious outcomes of the Salmon Rushdie affair has been the idea that, in the name of multiculturalism, society should not only accommodate the offended but also impose some curbs on free speech for fear of offending minorities." And once that right to be offended was established, the result was that communities used claims of offense "to demand bans on what they did not like."

Even if one thinks we should indeed protect people from being offended—and that is quite a presumption—several knotty questions linger. Who may claim offense, and why? Is violence ever an appropriate riposte for the offended? Should givers of offense be censored or punished? If so, who selects and imposes those restrictions and penalties—the offended?

The *Offence* essays—which are a part of the freedom-promoting group Index on Censorship's ongoing *Manifestos for the 21st Century* series—stake out a clear and unsurprising position on such questions: Ensuring and accepting a person's right to offend is important, we should all

— Mr. Frumin is a free-lance journalist formerly based in New Delhi.

be a little less touchy about taking offense, and we ought not allow the offended en masse to silence offenders, violently or otherwise.

It is, of course, a little more nuanced than that. British satirical cartoonist and serial offender Martin Rowson, who authored the series' smart and provocative *Giving Offence* essay, points out that the power dynamic between vocal offender and outraged offended is critical. "If I draw rude pictures of people less powerful than myself, what I do ceases to be satire, and creeps into one of the wider spheres of aggressive, bullying humour and into areas I consider offensive," Mr. Rowson writes. "This is because the urge to mock our social or political betters is something else hardwired into us, to stop us going mad at the injustice of their being held to be superior to us in the first place."

In India today, it is members of the country's religious majority whose claims of offense are least defensible and typically come at the expense of minority members ill-equipped to defend themselves. Inspired by "a militant brand of Hinduism," some Hindus—easily the largest and most powerful religious group in an incredibly diverse, multicultural democracy—have argued that "the government's secular policies were an excuse to appease minorities and that Hindu identity was being insulted," Mr. Tripathi writes.

Indian-Muslim artist Maqbool Fida Husain, for instance, lives in exile because Hindu nationalists, who were offended by his paintings of nude Hindu deities, have ransacked and protested galleries showing his work. "The police immediately decided to arrest Husain for disturbing communal harmony," Mr. Tripathi writes. Claiming to be victims of a sort of reverse discrim-

ination, fringe members of the majority respond to these supposed slights with repression, intimidation and the disproportionate giving of offense. "They are acting as Hinduism's moral Taliban," Mr. Tripathi writes.

While that overstates the case (as does Mr. Tripathi's equating of Hindu nationalists with Nazis), the question remains: How, in a democracy, does this happen? Mr. Tripathi blames India's weak-willed government and flawed constitution, which allows the government to restrict free expression to maintain order. Further, India's penal code makes it illegal to "outrage religious feelings" with ma-

licious intent or to promote, among other things, "enmity between different groups on grounds of religion." Well-meaning laws, maybe, but enforcing them with anything approaching fairness is nearly impossible.

However, the apparent consensus among *Offence* authors is that it is Muslims, not Hindus, who are the central actors in the recent world drama of taking religious offense. And this has only been thrown into sharper, more divisive relief since Sept. 11, 2001. The relatively new pattern of Muslims taking offense and reacting violently was most notoriously demonstrated in 2005 when the Danish newspaper *Jyllands-Posten* printed several editorial cartoons depicting the prophet Muhammad—something Islam forbids. "Just as it is impossible to step out from under the weight of 9/11 when discussing global terrorism, the Danish cartoons have come to dominate and stand for the contemporary debate around free speech and offence," writes Caspar Melville in *Taking Offence*.

Despite the frighteningly violent demonstrations against the cartoons across



the Muslim world (more than 100 died and a number of Danish embassies were attacked), the original sin, Mr. Rowson argues, may very well have been the newspaper's: "In this infamous affair, it's clear that Jyllands-Posten set out deliberately to offend, as part of the newspaper's long-standing campaign against immigrants, recruiting the voodoo powers of the medium to damage, or at least discomfort, a group of isolated, beleaguered, powerless and poor people in Danish society."

As for the widely held presumption that Muslims are somehow more prone to taking offense and retaliating violently than members of other religious groups, several *Offence* authors argue, essentially, that it is the East vs. West, clash of the civilizations mindset—feverishly popular in some circles—that created this perception from whole cloth. Followers of Islam are so segmented among themselves that the very idea of "the Muslim Monolith, Enraged and Out of Control," as the Pakistani writer Kamila Shamsie puts it in *Offence: The Muslim Case*, is something of a false construct.

So what can be done? Mr. Melville suggests that "we all just grow up." This is one area where easily offended members of all religious groups can surely improve, particularly in the West, where we have nurtured what Mr. Melville sharply calls "a hyper-individualized, thin-skinned culture of victimhood." But this rather glib casting of the offended as fragile infants ready to launch into a violent tantrum at the smallest provocation does little to understand or repair the many instances of people justifiably affronted by attacks, verbal or otherwise, on their beliefs.

Where is the middle ground between exercising and protecting the right to blaspheme and showing some measure of sensitivity for those the blasphemy may injure? Perhaps it lies in the place where the offended learn to ignore hurtful words and

images, comfortable enough with their beliefs to smirk away critiques, even when the thing being pilloried is that which they cherish most. "For while offence may be in the eye of the beholder," Mr. Rowson writes, "you must never rule out the option of simply blinking and looking away."

**INSIDE CENTRAL ASIA:
A POLITICAL AND CULTURAL HISTORY
OF UZBEKISTAN, TURKMENISTAN,
KAZAKHSTAN, KYRGYZSTAN,
TAJIKISTAN, TURKEY, AND IRAN**

by Dilip Hiro

Overlook Press, 480 pages, \$35

Reviewed by IAN CHESLEY

THE NATIONS OF Central Asia are often referred to as "the Stans," a shorthand term that implies obscurity and exoticism at the same time. The region falls through the cracks between the Middle East, Russia and South Asia; there are few well-known "Central Asian studies" programs in Western and Asian universities; and "Kazakh" and "Uzbek" are words that sound more like punchlines than actual languages and cultures with long, fascinating histories. When a newsworthy event from the region happens, experts hurry to the cable-news networks, and then the region sinks back into oblivion.

Dilip Hiro's new book is an attempt to remedy that situation. An update to his 1995 volume *Between Marx and Muhammad*, Mr. Hiro's *Inside Central Asia* chronicles the 20th-century history of the five former Soviet republics of Central Asia, and brackets them with chapters on Turkey and Iran for context. A newcomer to

Mr. Chesley studied Central Asia at Harvard University and received a doctorate in Slavic languages in 2007.

Central Asia will find Mr. Hiro's book an approachable introduction that is free of both academic jargon and cultural stereotypes.

Mr. Hiro diligently reads the historical record for the events of the post-Soviet era, bringing the reader up approximately to the winter of 2007, and the focus is almost entirely on the political history of the region, mostly limiting the discussion of culture to Islam and the most startling peculiarities of each country, such as Kyrgyzstan's tradition of "bride-stealing," *Ala-kachuu*, as it is known in Kyrgyz, involves the groom's kidnapping of his prospective bride.

In Kazakhstan, the prospect of huge oil and gas deposits attracted Western energy corporations after the fall of the Soviet Union. Mountainous Kyrgyzstan allowed the United States to use an airbase

on its territory after 9/11, and Uzbekistan's post-Soviet dictator, Islam Karimov, managed to balance the courtships of Russia, China and the U.S., until his emphasis on antiterrorist security exploded in a mass killing in Andijan in the spring of 2005.

Following its civil war in the 1990s, Tajikistan began this decade with perhaps the best prospects for a multiparty political system, but President Emomali Rahmon gradually consolidated power and eliminated former enemies (and friends) while trying to keep the basket-case nation from falling apart. And up until his death in 2006, the self-styled Turkmenbashi, president-for-life of Turkmenistan, devised ever more bizarre ways to aggrandize himself by hoarding his nation's natural resources. Mr. Hiro provides good coverage to all these issues, as well as to the political history of the period just before the breakup of the Soviet Union,

which is crucial for understanding how the region ended up the way it did.

For a book called *Inside Central Asia*, though, it is distinctly lacking an insider's perspective. Indeed, it seems that Mr. Hiro might not have visited the region since the early 1990s: One of his few personal anecdotes is about his driver/translator on a trip to the region just after the fall of the Soviet Union. It is a problem that could be remedied by pairing it with Colin Thubron's recent *Shadow of the Silk Road*.

Mr. Hiro's book also suffers from some distracting habits. One is his preference to see the swirl of ethnicities and languages

as the products of varying amounts of Iranian, European and Mongol bloodlines. Most modern scholars, however, treat the national identities of the region as resulting from historical facts, like Stalin's crude policy to redraw

Now that Washington's attention is once again on Afghanistan, the importance of Central Asia has never been more apparent.

borders, and intentional attempts by the fledgling nation-states to make their new identities look as "natural" as possible. Mr. Hiro also retranslates all Central Asian names back into their Arabic originals, and while curious from a linguistic point of view, the reader doesn't need to know the derivation of every last Turkmen bureaucrat's name.

Now that the Obama administration has begun paying attention to Afghanistan again, the importance of Central Asia has never been more apparent. President Bakiev of Kyrgyzstan recently traded the American use of an air base there for a huge grant of aid from Russia. After the Andijan massacre and the attendant scolding from the West, Uzbekistan turned to the Shanghai Cooperation Council, an organization of less-than-democratic Asian states; it is now trying to engineer yet another about-face, offering limited transit rights to the

U.S. for shipments to Afghanistan. Complicating things, Tajikistan, Kyrgyzstan and Uzbekistan are also locked in a struggle over the dwindling water resources that they must share.

The situation in Tajikistan has become especially precarious over the last two years. A harsh winter in 2008 resulted in brutal electricity shortages, because the lake that fed the hydroelectric plants had frozen solid. Later in the spring, there was a political scandal at the highest levels of the government when it was reported that President Rahmon's son shot his brother-in-law, Hassan Asadulloev, who also happened to run the largest bank in the country.

Over the summer of 2008 it gradually came to light that Mr. Asadulloev's bank was mixed up in a scheme to siphon off income from the Tursunzoda aluminum plant, one of Tajikistan's few national industrial assets. The affair, which allegedly involved a web of offshore bank accounts and shady deals, became public after it was revealed that the government of Tajikistan had spent the equivalent of 5% of its GDP on legal fees in a London court in a suit against its former business partners. Allegations of the blatant misappropriation of International Monetary Fund loans further damaged Tajikistan's reputation in the eyes of the outside world.

To make matters much worse, the global economic crisis of 2009 has erased another major source of money for Tajik families, remittances from workers abroad. Russia's oil-fueled economic engine has sputtered of late, meaning that thousands of young Tajik men have begun returning to their country with few prospects for new work.

The ominous development of the summer, reported by Eurasianet, is the return of a former leader of the Islamist opposition, Mulla Abdullah, from his haven on the Afghanistan-Pakistan border to the

mountains of Tajikistan. This, in a country bursting with newly unemployed young men, few of whom can feel much satisfaction about their government, is a potential recipe for disaster.

It is no surprise that the Tajik government is now enthusiastically volunteering for its territory to be used as a northern supply route for U.S. and NATO forces in Afghanistan. With the road through the Khyber Pass in Pakistan subject to Taliban attack, and Kyrgyzstan's vow to close the Manas air base to American use by the end of this summer, the success of the U.S./NATO mission in Afghanistan may soon depend heavily on the corrupt dictator of a tiny, unstable country.

CRIMINAL JUSTICE IN CHINA: A HISTORY

by Klaus Mühlhahn
Harvard University Press,
376 pages, \$29.95

Reviewed by JONATHAN MIRSKY

HERE IS AN example of the best kind of Sinological scholarship together with the blackest possible indictment of the Chinese criminal-justice system. The people of China haven't had a chance since the late Qing Dynasty to get justice if they were charged as criminals, and apart from a few pioneers and brave dissidents I suppose few have known what justice might be.

Klaus Mühlhahn, a professor of history at Indiana University, has scrutinized the documentation and Chinese, French, German and English scholarship. He makes three fundamental points: Following John Rawls, he points out that justice is "the first

Mr. Mirsky is a London-based free-lance writer and a former East Asia editor of the Times.

virtue of social institutions,” and that “Institutions, no matter how efficient and well arranged, become weak and dysfunctional if they are perceived as unjust.” Secondly, he maintains that a legal system, and particularly how it deals with those alleged to be criminals, reflects the state’s widest and deepest values. And finally—Mr. Mühlhahn is adroit at moving from cool historical exposition to fiery judgement—he says of China’s vast “re-education through labor” detention system that it has “created suffering on a mass scale.”

The book’s first substantial chapter concentrates on the late Qing Dynasty, with glances back to the Confucian values specifying that the family must handle most legal matters among its members, even concealing their crimes. Punishment, for Confucius, while sometimes necessary, must always reflect on those administering it, and be employed with great care. Qing legal practice also drew on the Legalist advocacy of heavy punishment to instill fear, not the betterment of the criminal as the Confucians advocated. The Qing could be very cruel—slicing, squeezing, tattooing and castrating—and executions were public events. But Mr. Mühlhahn observes that “executions in late imperial China were no match for the ferocious events staged in eighteenth century Europe ... where they drew huge crowds and were conducted in a carnival-like atmosphere.”

After the fall of the Qing, the new republic made great attempts to reform China’s laws, partly to eradicate extraterritoriality, imposed after the First Opium War by foreigners who condemned Chinese laws. Chinese intellectuals believed that the new China would win general

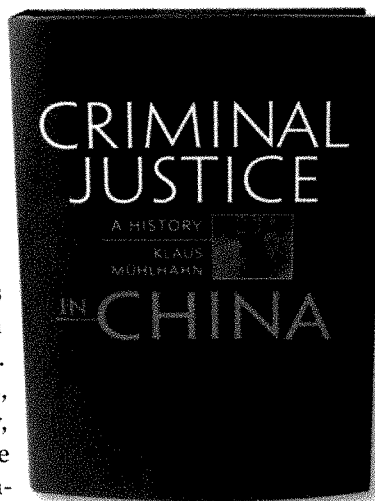
respect by adopting and adapting essential components of Western law, including some from the young Soviet Union. This latter was a stupendous misreading; one of the legal scholars concluded that “Soviet forms of imprisonment [were] progressive and effective ... and should serve as a model and inspiration for Chinese prison reform.” This catastrophic self-delusion also inspired the Communists even while they were still an embattled guerrilla

movement. And just as the Soviet Union, faced with an economic crisis combined with its own paranoia about enemies everywhere, drove prisoners to severe hard labor, torture and death, so too did the Kuomintang.

As the Japanese occupation took hold and the civil war heated up, the Communists and the KMT both imposed sentences by administrative fiat and “allowed suspi-

cion and denunciations to take the place of material evidence.” As the criminal-justice system became an “instrument of power and politics, the idea of justice seemed to lose any significance ... pervasive brutalization was taking place.” It was in that brutal system that Communist prisoners organized and educated each other, honing their skills at underground work.

What emerged in both the KMT and Communist systems was the fatal binary legal concept of friends and enemies, and it was this that became the hallmark of the Communist years up to the present day. “The [Chinese Communist Party] regime, not unlike the Bolsheviks, was an example of a ‘theatricalized state,’” writes Mr. Mühlhahn, “in which political drama and criminal justice were merged to extend



the powers of the regime in its struggles against perceived enemies."

There was always a lot of talk about the supernal value of "labor," first enunciated by Friedrich Engels, which was deemed by Mao and the Party to define a true human being with rights. But as in the Soviet Union, whatever redemptive qualities labor was supposed to instill were rendered obsolete by the exploitation of prisoners. In hard times, "large numbers of inmates were simply worked and starved to death" in the *laogai*, the places of "reform through labor," and if they died no one cared and only the prisoners noticed. In the *laogai* alone, Mr. Mühlhahn estimates there were 20 million prisoners, most of them "counter-revolutionaries," which means that at least 5% to 7% of the Chinese population was imprisoned in labor camps." This fitted, he notes, with Mao's notion that 5% of the population were counter-revolutionaries.

Here Mr. Mühlhahn makes one of his most profound comments. Quoting the long-time political prisoner Zhang Xianlang, in China, where everyone belonged to a commune, troop, residential unit or work unit, and informers and spies were everywhere, "the differences between the labor camp and society did not amount to much: 'The distinction was between a very large prison and a relatively small prison. There was a tight network of surveillance everywhere.'" Systematic torture, Mr. Mühlhahn states, was seldom mentioned by prisoners or noted as a cause of death. This is easy to explain: The entire system—with its excruciating conditions and random violence, where "what immediately meets the eye is the frequency [in memoirs and reports] with which death is mentioned"—was in itself a gigantic torture machine.

No matter what theories were advanced about friends and enemies, about the sanctity of labor, about the building

of a new state, what was at the core was the suspension of what political theorist Hannah Arendt termed "the right to have rights." Mr. Mühlhahn contends that the conviction rates in China, in 2005, are the highest in the world—98% of defendants are found guilty—as are the numbers executed. There are 68 capital offenses. At the 20th anniversary of the Tiananmen massacre, activists from 1989, no longer termed "counterrevolutionaries" but simply criminals, remain behind bars, and using the word Tiananmen on the Internet can bring a knock on the door. Other toxic words include democracy, Tibet and human rights. Arrests of such victims, if handled by the security branch, do not require a trial.

Mr. Mühlhahn shows that China's criminal-justice system today has arisen from political violence, and the result is "suffering that for millions [has] encompassed pain, anguish, fear, loss, grief, and the destruction of a coherent and meaningful reality."

TELLING CHINESE HISTORY:

A SELECTION OF ESSAYS

by Frederic E. Wakeman, Jr.

Edited by Lea H. Wakeman

University of California Press,

480 pages, \$24.95

Reviewed by PAMELA CROSSLEY

W

E ARE STILL in the twilight of the period when English-language writing and teaching about China was dominated by Philip A. Kuhn, Jonathan D. Spence and Frederic

Ms. Crossley is a professor of history at Dartmouth College. She is author of the forthcoming *The Wobbling Pivot: China since 1800, an Interpretive History*.

E. Wakeman, Jr. Their rivalries brought unprecedented breadth, depth, nuance and mass to the field. In the eyes of the profession they brought to maturity, the Great Three are often stereotyped: Mr. Kuhn the master of concepts, the social theorist with a center; Mr. Spence the humanist and connoisseur of empathic connections across space and time; Wakeman the cosmopolite whose writings and prodigious organizational activities delighted in throwing history and literature, fact and fiction, China and the world into the sparring ring together.

Until his premature death last year, Wakeman's pace of writing and mentoring was ferocious enough to keep the character of his achievement a bit of a Heisenberg blur; one could appreciate either the character or the direction of the work, but not both at once. The retrospective appreciation of Wakeman's contribution will take decades to complete. This volume, edited by his widow Lea H. Wakeman, is a first step, and a very sound one.

The collected essays ring with Wakeman's nearly unique mastery of the essay form. Whether a short narrative built around a previously unknown but important episode, or a contemplative foray into problems of interpretation, Wakeman could rivet the reader's attention, mark out a finite allusive dimension, and drive toward his point with remarkable efficiency. In content the essays cover much of the work with which most readers will associate Wakeman's best writing and thinking.

The 17th-century Ming-Qing transition is the background to "China and the Seventeenth-Century World Crisis," "The Shun Interregnum of 1644" and "Roman-

tics, Stoics and Martyrs in Seventeenth-Century China," all of which would rate for full inclusion among the hundred best pages ever written in English about early-modern Chinese history. The same superb quality is present in "Shanghai Smuggling," which reflects Wakeman's later interest in Shanghai of the 1930s.

For reasons that may have turned on insuperable logistics, two of Wakeman's greatest essays have not been included. "High Qing, 1683-1839," which today is available only in James Crowley's scarce *Modern East Asia: Essays in Interpretation* (1970) has been

omitted. And instead of "Boundaries of the Public Sphere in Ming and Qing China" (originally published in *Daedalus* and then reprinted in Shmuel N. Eisenstadt et al's *Public Spheres & Collective*

Identities, 2001) we have "Civil Society in Late Imperial and Modern China," a distinctly less persuasive essay on the same subject.

Wakeman's virtuosity as an essayist is likely to amplify his influence with future scholars, since evolving scholarly media are likely to favor the presentation of vivid imagery and crisp interpretation on a scale that coincides with what up to now we have known as the essay—almost lost as an art form, but clearly still thriving in Wakeman's work. The volume teaches a new lesson about Wakeman, and about writing.

Strangers at the Gate, which may still be his finest book, is revealed in the light of this collection to be a series of long essays. And Wakeman's essays as a whole are not distillations of research and interpretation that are also present in the more sprawling volumes such as *The Great Enterprise or History and Will*; instead, the longer works

Despite the fact that Wakeman's best writing was in a relatively short form, his large ideas about Chinese history emerge distinctly.

tended to be derivatives or elaborations of the essential material existing in its truer form in his essays.

Demands of the world of publishing and expectations of the scholarly field clearly pushed Wakeman (as the rest of us) toward long and sometimes self-indulgent books. In Wakeman's case, this may have been a distraction, since he was a natural essayist and in his essays lie the crystalline perceptions that are the hallmarks of his work.

Despite the fact that Wakeman's best writing was in a relatively short form, his large ideas about Chinese history emerge distinctly—as they did in the work of his intellectual ancestor, Étienne Balázs. The first essay in the volume, "Navigating History," is a revision of Wakeman's 1992 presidential speech at the annual meeting of the American Historical Association, published in 1993. A speech that had been desultory and a bit self-absorbed becomes in its metamorphosis as an essay a deft interweaving of personal travels, Columbus' explorations, Chinese laborers in Cuba, Zheng He's voyages through the Indian Ocean, and finally the modern contradiction between outward engagement of Chinese entrepreneurs and insular wariness of the state.

In this essay, Wakeman invokes the idea of the *repliement*, the introversion, that in his view characterized Chinese state posture for the "late imperial" period, with far-reaching consequences for society, culture, economics and technology. *Repliement* captures the guiding idea of the Kuhn/Spence/Wakeman generation. It was a legacy of their own teachers—John King Fairbank, Mary Clabaugh Wright and, in Wakeman's case, Joseph R. Levenson—and reached back through various twists to 19th-century philosophers who saw the sea as the single field of endeavor dividing history's leaders from its followers.

It was Levenson who most colorfully elaborated upon the idea in his introduction to *European Expansion and the Counter-Example of Asia* (1967), describing the bureaucratic condemnation of the costs of Zheng He's voyages and the burning of his boats. In "Navigating History," Wakeman follows the logic to the disengagement of the Ming and Qing states from naval development, mercantilism and overseas expansion. His view, not greatly different from Levenson's or even from Hegel's, was that the repliement had not only estranged China from other early modern societies, but had driven a wedge between the state and Chinese merchants and laborers, forging the 1911 revolution and shaping most of 20th-century Chinese history in its global scope.

Students of the Great Three have been skeptical of the concept of the repliement. They tend to see Ming and Qing commercial development as so intense that it drew trade toward itself, fueling a revolution in global trade and finance. In this view, late imperial China was expansive and colonial—on the land, which was China's ancient and always urgent strategic frontier. The foreign relations of the period were driven less by peculiar, isolationist, "sinocentric" (Fairbank's neologism) motives and more by the rational strategies of a revenue-hungry and security-conscious state.

As today's scholars move toward a re-characterization of Ming and Qing China, we will be tempted to regard lightly the Weberian and Hegelian concepts that shaped European and American views of China from the middle of the 19th century to the end of the 20th. Fortunately, Wakeman's literary achievements will provide at least one medium for preserving the best of a profession's legacy.

**THE RISE OF CHINA:
ESSAYS ON THE FUTURE COMPETITION**
Edited by Gary J. Schmitt
Encounter Books, 160 pages, \$21.95

CHINA 2020
by Michael A. Santoro
Cornell University Press,
162 pages, \$21.95

Reviewed by JANIS FOO

WHEN THE UNITED States supported China's admittance into the World Trade Organization in 2001, it did so based in part on the assumption that greater economic openness could lead to political change in the authoritarian state. An increase in foreign investment and economic privatization, it was believed, would nudge China toward democracy and a better human-rights record, as well as mold it into a "responsible stakeholder."

But eight years later, the country is not developing as many hoped it would. The Chinese government continues to crack down on political activists—the most recent case being the formal arrest of writer Liu Xiaobo, who faces up to 15 years of imprisonment on charges of "subversion." Beijing has delayed but not abandoned efforts to install the "Green Dam Youth Escort" filtering device on personal computers. Meanwhile, China's growing arms trade abroad is contributing to instability in Sudan and Zimbabwe.

All this is worrying to Western policy makers and businessmen concerned with maintaining a world order in which superpowers are accountable for actions affecting global security and prosperity. Two new books—one edited by the American Enterprise Institute's Gary Schmitt and the other authored by Michael Santoro, a

business ethics professor at Rutgers—look at how Western governments and businesses, respectively, can deal with these concerns. As Mr. Schmitt aptly notes in his introduction, it is not "China's rise *per se* that worries Washington ... Rather, it is the rise of the People's Republic of China that causes us concern." At the turn of the 20th century, he points out, Great Britain could tolerate America's assertive policies "more easily because the two countries had more in common politically and culturally than not. That cannot be said about the U.S. and the PRC."

Mr. Schmitt's collection of seven short essays brings together an impressive cast of Asia policy heavyweights—Robert Kagan, Ashley Tellis, Dan Blumenthal, Michael Auslin, Ellen Bork and Nicholas Eberstadt—who provide a well-rounded survey of the likely clashes in ideology and interests with the West that will define China's role in the coming decades.

Mr. Kagan argues, for instance, that the struggle between the U.S. and China in the 21st century will be as much about belief as it is about power. Chinese leaders have emerged as defenders of the "old Westphalian system," he notes, preferring to restore an international order in which national sovereignty is inviolable, whereas the Americans hope to transform political systems through their brand of "liberalization" and "democratization." The biggest concern for the Chinese, therefore, is not invasion, but that an "American-led world will try to stop them from fulfilling their ambitions and their destiny [and] that the denial of Chinese ambitions abroad could ultimately undermine their ability to rule at home."

We should not, then, expect China to ease up on its military power projections any time soon, despite the Chinese Communist Party's emphasis on "peace and development." In March, Chinese vessels harassed a U.S. Navy surveillance ship in

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the South China Sea in what appeared to be Beijing's latest attempt to dominate international waters near Taiwan. Indeed, "the pragmatism supposedly at the heart of the so-called 'third' and 'fourth generation' of Chinese leadership" has not kept Jiang Zemin or Hu Jintao from flexing military might, writes Mr. Blumenthal.

Compounding Western anxiety is the fact that there is still so much the West does not know about China's strategic vision. Nonetheless, the authors in the volume agree on one point, which is that the U.S. and its allies must be more proactive about shaping the geopolitical environment in Asia. Mr. Blumenthal posits that the U.S. needs "to meet China's military build-up with a diversification of bases and access points into the region." Mr. Schmitt calls on the U.S. to improve relations with allies in the region through multilateral institutions and free trade agreements. In particular, the U.S. should forge stronger relations with Japan and support Japan's attempts to maintain influence in regional multilateral bodies, writes Mr. Auslin. It is this alliance, he argues, that may help move China in the right direction. Ms. Bork, meanwhile, urges Washington to abandon its long-outdated "one China" policy and "to make Taiwan's importance as a free society clear."

These arguments are persuasive but not particularly original (the book comes on the heels of a flood of China-rises books). A more unique take on the West's role in China's political and economic development can be found in *China 2020*. In this book, Mr. Santoro argues that Westerners, and in particular business people, "have a moral responsibility to do considerably more than they are currently doing to advance labor rights, product safety, Internet

freedom, and the rule of law in China."

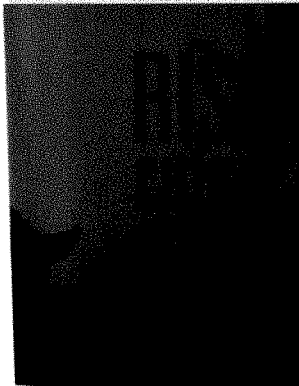
The record of foreign Internet companies, for instance, "has been decidedly mixed," writes Mr. Santoro. Sure, Google, Microsoft, Yahoo and others have helped the Chinese government build an Internet infrastructure that now brings information via the Web to more than 23% of the population. But these companies have also been complicit in the CCP's censorship regime. In perhaps the most egregious case,

in 2004 Yahoo revealed to the Chinese government the personal information and identity of journalist Shi Tao who had sent a June 4-related document to a prodemocracy Web site; shortly thereafter, Mr. Shi was imprisoned for leaking "state secrets." Companies complacent with free-speech violations in China because they want to operate according to local regulations, Mr. Santoro suggests,

are no better than those complacent with apartheid laws in South Africa.

One way the Internet industry has pushed for greater Web freedom is through multistakeholder initiatives. In 2008, private corporations (including Yahoo) joined with academic centers and NGOs to form the Global Network Initiative and put forth a set of voluntary guidelines for companies operating in countries that restrict the free flow of information. Although it's too early to ascertain the effectiveness of the initiative, at least there are now a set of principals to which companies like Yahoo are held accountable.

Mr. Santoro also addresses what companies should do if they simply cannot operate in China while upholding the moral standards he proposes. There is, he concedes, one crucial difference between doing business in China and in South Africa. In South Africa there was no neutral ground—com-



panies “had to either obey the law and practice racial discrimination or break the law and treat people equally”—whereas in China there are opportunities for companies to do business “without being outwardly complicit in human rights violations.” Brand-name companies whose subcontractors exploit sweatshop labor, for example, could require those subcontractors to adhere to “a code of conduct that respects the basic rights of workers,” Mr. Santoro writes.

The ultimate outcome of China’s economic and political development is unpredictable. At the 20-year anniversary of the bloody June 4 massacre, the country has still not emerged from the “showdown of Tiananmen.” What is clear, however, is that there are many avenues through which governments and industries can and should go about affecting greater change.

**THE MIRACLE: THE EPIC STORY
OF ASIA’S QUEST FOR WEALTH**

by Michael Schuman

HarperBusiness, 464 pages, \$29.99

Reviewed by DENIS MCMAHON

A DECADE AFTER THE Asian Financial Crisis put an end to talk of the region’s economic miracle, it’s difficult to tackle the subject of Asia’s economic rise with a fresh approach. Reams of academic papers and opinion pieces have chewed over the key questions: How did Asia’s economies manage to grow so quickly while other regions remained mired in poverty? Is there an Asian model of development and can it be transplanted elsewhere? And was there even a miracle at all or was it always destined to fall apart?

Michael Schuman’s *The Miracle* large-

ly avoids these tired and worn ideological battles by humanizing the story and distilling it into the personal experiences of key figures involved in reshaping the region’s economies. Having covered the 1997-98 crisis for *The Wall Street Journal*, spending six years with the paper in South Korea and Indonesia, and now reporting on Asian business for *Time* magazine, Mr. Schuman is well placed to reflect on Asia’s arc of progress. Summing up nine economies in a scant 355 pages, this may be history in broad brush strokes, but it’s also a rollicking good yarn.

That’s not to say that Mr. Schuman doesn’t have his own ideas about what drove the region’s success. His choice of characters—a grab bag of entrepreneurs, politicians and technocrats—illustrate a belief that enlightened interventionist governments that also knew when and where to give market forces their head were essential to Asia’s ability to transform from agrarian to industrial economies. But it’s a stance biased toward the latter half of that equation. Mr. Schuman muses that governmental guidance of industrial policy in Japan was in many ways a straight-jacket to Sony and Honda in their early days of development. Similarly, businessmen such as Liu Chuanzhi of China’s Lenovo and Azim Premji of India’s Wipro owe much of their success to a genius for exploiting the broad liberalization trends of their respective home economies while navigating obstructive regulations.

Giving entrepreneurs more credit for Asia’s rise than they are typically afforded isn’t much of a unifying theme, particularly given the diversity of cultures and political systems they were operating in. Yet the tales Mr. Schuman recounts of personal sacrifice, unwavering work ethic, and a driving belief by his chosen characters that their countries could be so much more, link together otherwise unrelated stories into a compelling narrative.

∞ Mr. McMahon is a Shanghai-based reporter for Dow Jones Newswires.

Still, Mr. Schuman takes some license with the parameters defining “miracle,” suggesting that it is still alive, when most pundits laid it to rest years ago. Even though the region returned to fast-paced growth soon after the crisis, the term was no longer appropriate. The development model seemed to have changed, and the exuberance of foreign investors had dissipated. If precrisis Asia—the one we associate with miraculous growth rates—was broadly marked by political stability and single-minded dedication to economic growth, then political transformation has marked the postcrisis period. Whether it be the rise of a Taiwanese independence movement, Indonesia’s democratic evolution or Hong Kong’s attempts to reconcile rule of law and nascent democratic traditions with Beijing’s oversight, the narrative these economies occupy in Western newspapers is no longer about growth.

Moreover, he takes a fairly expansive view of the countries that were involved. Prior to 1997, after which the use of the word seemed to peter out, it was applied to the Dragon and Tiger economies. Under the prevailing theory of the time, those economies fit into the flying geese model of economic development: rising labor costs meant Japan moved investment and technology to South Korea, Taiwan, Hong Kong and Singapore, which in turn shuffled it on to Thailand, Malaysia and Indonesia.

Mr. Schuman, however, throws China and India into the mix, both as miracle economies on the make. Their inclusion in some ways muddles the concept. The two billion-plus person economies individually dwarf the grouping that traditionally makes up Asia’s economic miracle. And the themes that have unified the rest of the region’s growth don’t seem to apply to them.

Rather than being the last bird in the flying geese formation, China has turned itself into the focal point of Asia’s supply chains. Meanwhile, India’s rise has had little to do with the export of cheap manufactured goods, the hallmark of the rest of Asia, instead focusing on the export of services.

What does draw China and India into the same developmental orbit as the rest of Asia is the dependence on Western markets. It’s here that Mr. Schuman makes an engaging case for globalism as the essential agent of

Summing up nine economies in 355 pages, this may be history in broad brush strokes, but it’s also a rollicking good yarn.

economic growth and poverty alleviation. In particular, the epilogue, tracing the positive impact investment by Chinese and Japanese firms is having on depressed parts of the United States, humanizes an otherwise polit-

ically charged issue, most notably by going inside a Haier factory in South Carolina.

But by including China and India, and bringing the story of the miracle up to present times, the book encounters some problems. The current global financial crisis has not only put greedy bankers and profligate U.S. consumers in the dock, but China’s export machine also must take some responsibility for helping generate the global imbalances that brought the world economy to its knees. Export-led growth was a key element of the whole region’s economic rise. But pursued by a continental economy with the world’s largest population, the model’s sustainability comes under strain.

The Miracle keeps it light while offering some interesting insights into what helped make Asia’s economies such a success. Yet in the context of the current financial meltdown, the omission of any reassessment of the miracle that acknowledges the contributions Asia’s growth model made to our current predicament is glaring. ■

BORNEO'S 'GREEN GOLD'

by Peter Ritter

OUR GUIDE, GERALD, points to a spot 15 meters above us in the canopy. "There. Look over there. In the trees," he says. In the crook of two branches, nearly obscured by the foliage, we see a nest about the size of an eagle's made from leaves and sticks. Something moves. Leaves flutter to the jungle floor. A blur of orange. Gerald puts a finger behind his ear and cocks his head to listen. *Mmooww. Mmooww.* The call echoes around the forest, already receding into the impenetrable green. It sounds like a whale's song. "Orangutan," Gerald whispers.

The encounter is tantalizingly brief, both because we've spent hours hiking through muddy rainforest infested with leeches—later I will lift my shirt and find a chorus line of the vile things, squirming and swollen with blood, on my stomach—and because the animal we're looking for is one of the world's rarest and most threatened.

By some estimates, there are only 50,000 orangutans left in the remote forests of Borneo and Sumatra, where they are classified as critically endangered. Their declining population, along with their peculiarly expressive features—"orangutan" means "man of the forest" in Malay—has made them a poignant symbol for many conservationists of the despoliation of Asia's environment. Danum Valley, 43,800 hectares of lowland dipterocarp rainforest in Malaysian Borneo, may be one of the last, best places to catch a glimpse of these

arboreal apes in the wild.

But if the orangutan is the star in Danum, he also has a stellar supporting cast: gibbons, whose laughing call sounds like a man slowly catching onto a joke; meter-long monitor lizards basking on the riverbanks; tarsiers, pocket-sized nocturnal primates whose enormous eyes seem to describe a sense of wonderment with the waking world; serpent eagles and flying snakes; and Sumatran rhinoceroses, so rare that only around 300 remain.

Seen at eye level, Borneo's rainforest is everything you want it to be. This is one of the most biologically diverse places on the planet, with up to 200 different species of tree per hectare. Together, they form a canopy so opaque that it is twilight at midday, so impenetrable that daily afternoon rainstorms register only as a faraway patter. The canopy is a lepidopterist's paradise. Clouds of butterflies flit in the gloom, including the famous Rajah Brooke's birdwing, with wings painted neon green against a velvet canvas. Beneath the sheltering ceiling grows an impossibly exotic garden, from orchids to the rafflesia, a parasitic flower that can grow to a nightmarish 40 inches in diameter. Pygmy elephants crash about in the underbrush, while orangutans descend from their leafy aeries to gorge on rambutans and wild figs.

But take another look at this primeval Eden—this time from 200 miles above Earth—and a very different picture emerges. In satellite photos, you'll see the thick jungle hemmed in by tidy rows of palm trees. These vast palm-oil plantations have

∞ *Mr. Ritter is a free-lance writer based in Hong Kong.*

become Borneo's fastest growing industry. They are also paring back the forest that once carpeted the island into small, isolated patches. The jungle, seemingly measureless to a visitor on the ground, may actually represent the last gasp of Borneo's legendary wilderness.

Compared to the illegal logging operations and gold mines that scar Borneo's landscape, the island's palm plantations seem benign, even beautiful, with green fronds swaying gently in the breeze and narrow roads winding among the trees.

Human beings have harvested palm fruit in groves like these for millennia. In Abydos, Egypt, archeologists discovered traces of palm oil in a tomb over 5,000 years old. But Borneo's palm-oil industry is a relatively newer development, brought to the island by Dutch and British colonizers. Today, palm plantations cover about 8 million hectares in Indonesia. In 2007 alone, Malaysia exported more than 13 million metric tons of palm oil worth nearly \$10 billion, according to government statistics.

The oil from that vast acreage ends up in a staggering array of products, from soap to chocolate bars to industrial lubricants. Palm oil has, significantly, also become a prime new source of biofuel. Malaysia has invested heavily already, opening dozens of plants to process the raw oil into fuel for export to China and Europe. Neste, a Finnish oil company, already produces a biofuel made mostly from palm oil that runs some of Helsinki's buses.

But many environmental groups argue that palm oil isn't the green panacea it's been billed as. Much of the expansion of palm plantations has come at the expense of Borneo's forests, critical incubators of the island's biodiversity. Particularly in Kalimantan, the Indonesian section of the island, farmers sometimes clear land for palm cultivation by burning the forest, sending up a haze that can drift across Asia.

And much of that burning happens in

Borneo's peat swamps, one of the island's most important and fragile ecosystems. Densely packed with centuries of decaying organic material, these swamps store a huge payload of carbon, which, when burned, is released into the atmosphere. Lian Pin Koh, a scientist at Switzerland's Institute of Terrestrial Ecosystems who has studied palm oil's environmental impact extensively, says that the resulting enormous release of greenhouse gases could exacerbate global warming. "Indonesia's decision to convert peat-lands to oil palm is a monumental mistake for the country's long-term economic prosperity and sustainability," he says.

Malaysia has been more prescient about protecting its environment, banning agricultural conversion of protected forest. But Mr. Koh says that new plantations may still spring up in previously logged forests—less impressive than virgin wilderness like Danum valley, but still vitally important habitat for wildlife like orangutans and elephants. "A growing number of scientific studies have shown these secondary forests to be highly valuable for biodiversity conservation," he says. "A large proportion of the remaining forest in Malaysia belongs to this category of unprotected secondary forest, which remains vulnerable to palm-oil development."

The danger to Borneo's biodiversity is hard to overstate. Between 1985 and 2005, roughly a third of the island's rainforest disappeared, felled by indiscriminate logging or cleared for palm plantations. One alarming 2001 study predicted that Kalimantan's lowland forest could be completely gone by 2010. Navjot Sodhi, a researcher at the National University of Singapore, has estimated that deforestation could result in a third of Asian forest species going extinct this century.

In Kota Kinabalu, Sabah's laid-back seaside capital, I meet Darrel Webber, a project manager with the World Wide Fund for Nature. Mr. Webber oversees one of Sabah's

most ambitious conservation projects, a “corridor of life” along the Kinabatangan River in eastern Sabah designed to act as a buffer between a wildlife-rich protected forest and the palm plantations that crowd against it. He explains that the industry is likely to keep expanding world-wide, since palm oil represents a major economic opportunity for poor countries. “We know for a fact that palm oil can alleviate poverty,” he says. “Compared to other commodities, even coffee or cocoa, nothing else gets as much profit from the land. You just can’t beat palm oil.”

For nations weighing conservation of their natural environment against economic development, the math becomes hard to resist. I ask Mr. Weber if he thinks palm plantations will continue to encroach on Borneo’s

wilderness. “As long as people do not value forest as much as other land uses, the danger will continue,” he says.

In the past, campaigning by environmentalists has slowed expansion into more controversial areas. In 2007, the Indonesian government scrapped a plan, funded by China, to build the world’s largest palm-oil plantation along its mountainous border with Malaysia, in a biologically rich, largely inaccessible region known as the heart of Borneo. In a victory for conservationists, the two governments, along with Brunei, instead agreed to permanently protect more than 200,000 square kilometers of remaining rainforest.

Palm-oil companies, stung by hyperbolic characterizations of their industry as rapacious plunderers, have also responded to environmental concerns. In 2003, a consortium of oil companies and conser-

vation groups set up the Roundtable on Sustainable Palm Oil to codify and encourage environmentally sustainable practices for growers and producers. Some plantation operators in Malaysia have gone even further, setting up buffer zones for wildlife and organizing jungle patrols to stop poaching and encroachment on habitat. Last year, the Anglo-Dutch conglomerate Unilever, which is among the world’s largest palm-oil consumers, announced that by

2015 it would only buy oil produced according to RSPO standards.

Because compliance is voluntary, some groups, including Greenpeace, have charged that the RSPO is largely a “greenwash,” the environmental equivalent of corporate damage control. Yet other conservation groups, including the WWF, have embraced the initiative,

arguing that the only way to improve the industry is with the cooperation of companies themselves. “There’s been a lot of criticism of the RSPO,” the WWF’s Mr. Webber acknowledges. “But there’s no other vehicle for sustainable development.”

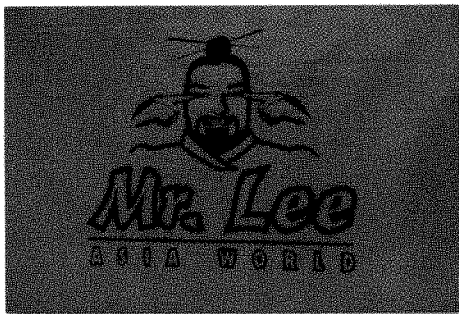
In Mr. Webber’s view, there’s no reason why palm oil can’t be grown sustainably while still enriching local economies. After all, Borneo’s logging industry, once the bête noire of environmentalists, has made admirable strides toward sustainability. But the success of the RSPO depends on convincing thousands of small farmers to go along with the program. And in a larger sense, it may depend on getting everyone—consumers of chocolate and biofuel in Asia and Europe, as well as impoverished farmers in Borneo—to agree that the island’s remaining forests are every bit as valuable as the crop referred to here as “green gold.” ■



TIM FOLEY

Austrians Love Asians

TRYING TO FIND some decent Chinese food in Vienna, TT stumbled across a local chain called "Mr. Lee" whose marketers seem to have taken sensitivity training from the Spanish Olympic basketball team. The logo is reminiscent of the team's infamous group photo in which they all adopted a similar pose. Or perhaps this is supposed to be an Asian person who has had double eyelid surgery demonstrating what they used to look like?



Wallabies Gone Wild

FOR YEARS, MOUTH-BREATHING science-fiction geeks have claimed that crop circles found in fields around the world are the work of aliens. Think again X-Files fans! The BBC recently reported that stoned wallabies may be behind the mysterious circular patterns, at least in the Australian state of Tasmania, the world's largest producer of legally grown opium. Apparently, the curious marsupials are breaking into poppy fields "getting high as a kite and going around in circles," said the island's attorney general. "Then they crash." Sheep and deer in the area have also been known to exhibit similar behavior after consuming the poppy plants.

So how does one explain the existence of crop circles in rural Nebraska? Perhaps we should start by drug-testing the cows.

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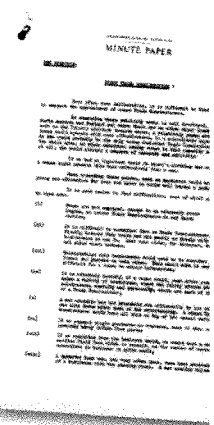
LOOKS LIKE CHINA can manufacture more than just tennis shoes at warp speed. Subsisting on caffeine and cigarettes, two Chinese writers stayed up for 48 hours straight to pen an "instant" biography of the late Michael Jackson. The book, entitled *Moonwalk in Paradise* hit bookshelves over the weekend following his death. The book is probably as rushed and as original as the Chinese government's Green Dam software (the duo wrote based on "accumulated knowledge about the king of pop"). But at least they did "a nice job on quickly responding to market needs," one of the book's editors told China Daily.

Neanderthal Views on Sheilas

A FRIEND SENT us a fascinating Australian government memo from 1963 on the issue of whether to hire women trade commissioners. While conceding that a young and attractive representative might bring some assets to the job, the problem was that "such an appointee would not stay young and attractive forever and later on could well become a problem."

It was also deemed doubtful that a woman could stand the stresses of the job, especially since she would have to run her household as well. In a worst case scenario, "A spinster lady can, and very often does, turn into something of a battleaxe with the passing years. A man usually mellows." The conclusion: "It would seem that the noes have it."

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ECONOMICS

China's Push for a New Global Monetary Order

by Ulrich Volz



OTTAWA, CANADA (FEER) — Chinese Central Bank Gov. Zhou Xiaochuan speaks during a conference in Mexico, Coahuila, March 28.

With the U.S. financial sector in shambles, and the U.S. government taking on unprecedented amounts of debt to revive the economy, it is quite understandable that the Chinese worry about the stability of the dollar. China is today facing a dilemma that is nicely described by the words of John Paul Getty: "If you owe the bank \$100, that's your problem. If you owe the bank \$100 million, that's the bank's problem." The only difference here is that the U.S. government owes much more to China than \$100 million. About 65%-70% of the \$2.3 trillion that the Chinese authorities hold are invested in U.S. assets.

Posted July 7, 2009
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by Saul Supraman

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By Diego Laje

Just before the WHO announced the swine flu pandemic, Professor Malik Peris told FEER contributor Diego Laje that the southern hemisphere may be in short supply of flu vaccines.



FEER Multimedia Producer Saul Supraman shot and edited this video.

Posted June 16, 2009
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SEPTEMBER 2009

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DECOUPLING ASIA'S GROWTH

Emerging Markets Are Poised to Perform

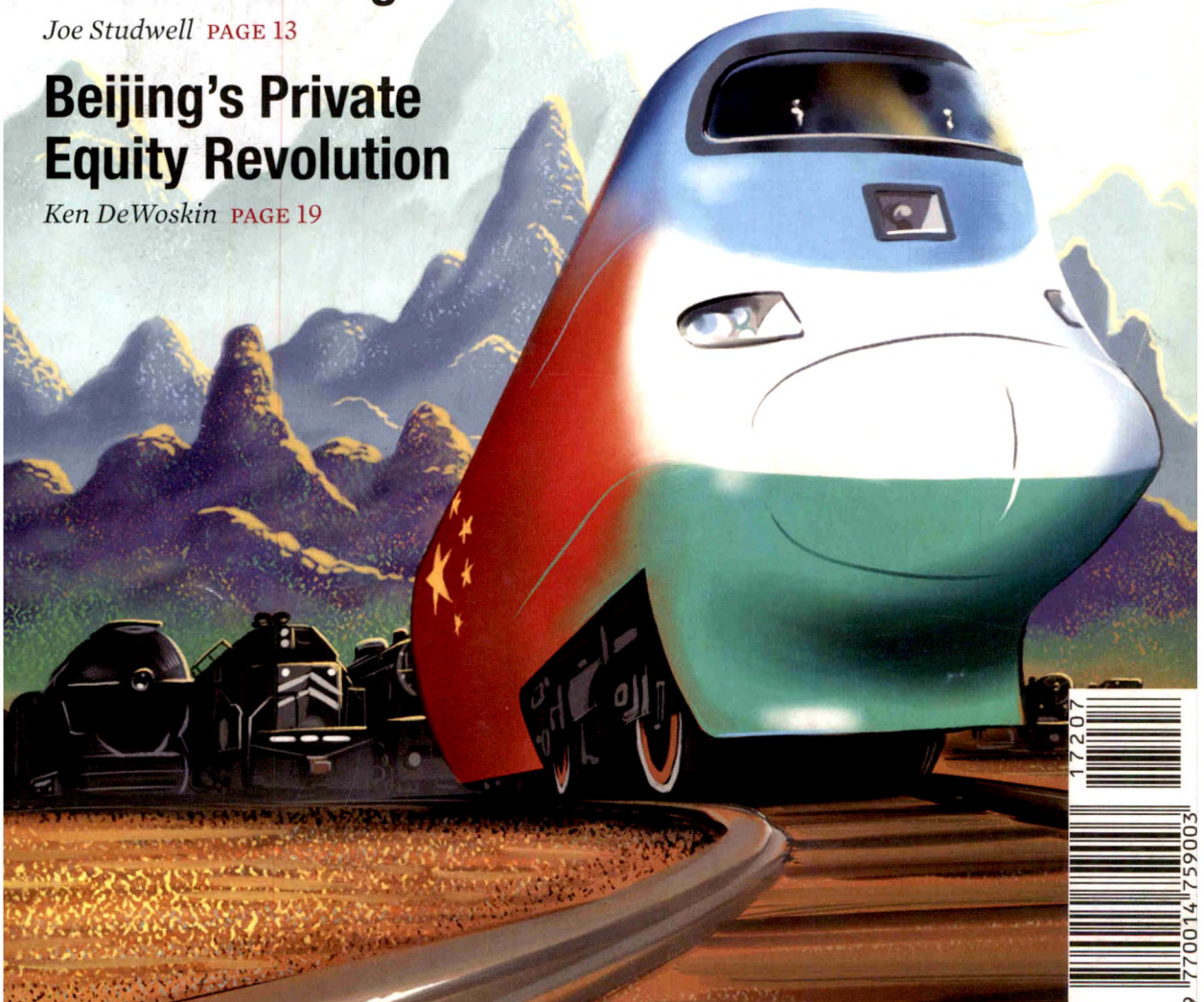
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Beijing's Private Equity Revolution

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Joe Studwell, a British freelance journalist, argues that the Rio Tinto debacle exposes China's ineffective economic planning and its disregard for the rule of law.

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Salil Tripathi, a free-lance writer based in London, contends that the BJP's recent election loss is symptomatic of a fundamental identity crisis within the party's leadership.

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Simon Montlake, a free-lance writer based in Bangkok, examines the effects and motives of the new Malaysian Prime Minister Najib Razak's efforts to reform a 30-year-old system.

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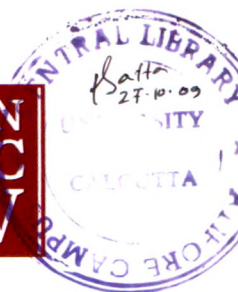
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CAN ASIA EMERGE stronger from the global crisis? As the proverbial green shoots continue to emerge and some economies return to positive growth, this question still remains unanswered. If developing economies are dependent on external demand from the developed world, then the higher U.S. savings rate needed to rebuild household and corporate balance sheets will impose a huge drag on regional growth. But if emerging Asia can find its own demand drivers, then it will be able sustain its recovery.

As Jonathan Anderson writes in this issue's lead essay, there is no question that the global economy will continue to be a highly correlated affair—trouble anywhere has ripple effects everywhere. Nevertheless, the long-awaited “decoupling” of emerging markets does seem to have arrived, to the extent that a broad range of economies are prospering despite the strong financial headwinds.

Despite contradicting the current conventional wisdom, this is not as surprising as it first appears. Poorer countries are supposed to grow faster than richer ones, and in fact did so for much of the postwar period. The times when they did not can be explained by poor macroeconomic policies around the world. As long as policy makers can maintain price stability and not blow out fiscal spending too badly, Asia stands a good chance of continuing to create wealth.

That's the optimistic view at least. Readers may remember that in the REVIEW's January/February issue, we featured an essay by Michael Pettis arguing that as a major exporting region Asia, and China in particular, would prove to be the biggest victim of the crisis, much as the U.S. was in the Great Depression. The pessimists now say that China has temporarily escaped this fate by unleashing a flood of liquidity. While delaying the inevitable, this has also increased the danger of the banking system suffering a crippling bout of nonperforming loans.

Which theory proves to be correct should become clearer by next year. But in the meantime there are still plenty of reform measures that can be undertaken to ensure sustainable growth. Joe Studwell explains how the structure of China's steel industry, divided between state and privately owned, led to overexpansion and the dispute over iron-ore prices that ensnared Rio Tinto's employees. This relates to the point of Ken DeWoskin's essay—bank lending in China continues to favor large state-owned companies. Opening the door to more private-equity involvement will ameliorate this problem, but deeper reforms are still needed in the long run to keep growth on track.

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LETTERS

Yes We Can

IT WOULD BE premature to ask if the opposition Democratic Party could bring democracy back to Japan (“Can the DPJ Bring Democracy to Japan?” July/August 2009), just wait and let it try. Japan has seen three prime ministers from the long dominating LDP mainly because of ugly internal squabbles and dirty money scandals. The worn-out LDP should call it a day and go for some refresher courses. There will always be a next round. DPJ is waiting to form the next government. Isn’t it time for a change?

*Tan Boon Tee
via FEER.com*

False Impressions

A TWO-PARTY SYSTEM does not necessarily represent “normality” (“Will Japan Ever Grow Up?” July/August 2009). For it to work, you need a deeply divided society. In the West, wealth and development hide the waste and inefficiency of a society at odds with itself, where policy direction changes 180 degrees and measures are reversed and abandoned every five years. Japan does not have that, since blue and white collar classes do not feel the mutual antagonism common in Europe and America. In fact, Japan’s democratic dictatorship has served the country well for half a century, assuring consistent policy making and nation-building over time. This country is nothing like

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a Western society and should not try to ape one. The Democrats are mostly ex-LDP anyway, so the “difference” may be illusory.

*Oohkuchi
via FEER.com*

One More Tiny Note

THANKS FOR AN excellent report (“Sri Lanka at the Crossroads,” July/August 2009). But perhaps a word about the “students and peasants uprisings”: they were brutally crushed but only after a year of extremely murderous People’s Liberations Front terror. It is natural that all “details” cannot be mentioned in an article comprising 60 years of history. However, attributing absolute terror to the uprisings would have completed your picture.

*Sinikka Scheinpflug de Mel
via FEER.com*

On Corruption

I AGREE WITH your main point that urban and rural Chinese are slowly demanding for more representation (“Hidden Battles over Chinese Elections,” July/August 2009). Your characterization of rural elections is a bit too rosy, though. Anecdotally, I found that nearly everyone in rural China with whom I discussed elections described the process as corrupt vote-buying (rural research conducted in 2007-08 in many provinces). While the elections initially appear to have been fair (particularly when foreign NGOs like the Ford Foundation were witnessing them), that is likely no longer the case. Villagers see elections as just another form of corruption by local cadres.

*Dan
via FEER.com*



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Emerging Markets Poised to Perform

Developing countries are confounding expectations that slowing external demand from Western consumers will kill their growth. But we shouldn't be surprised given their postwar trajectories.

by Jonathan Anderson



FOR THOSE WHO cut their teeth on emerging markets in the rough-and-tumble days of the 1980s and 1990s, the spectacle of the past seven or eight years has been unusual to say the very least. Everyone knows that developing countries are tactical and highly cyclical plays at best, with a tendency to blow up and ruin paper fortunes. Yet when was the last time we saw such a long period of unimpeded, rapid and across-the-board growth in the low-income world? When was the last time we saw such sustained income gains vis-à-vis against advanced economies? And when, in anyone's memory, did emerging investors actually make money on trend for nearly a decade—and then keep up the relative outperformance in a period of global financial turmoil?

To naysayers, the logical aftermath of the recent crisis is that emerging markets will be laid bare as nothing more than a massive China- and liquidity-fueled bubble. To the biggest boosters, the rise of China,

India and the “BRICS” will lead the world into absolutely unprecedented territory—a “new emerging order,” if you will.

However, the most likely outcome is in fact “neither.” This is not the end of the developing growth story by any means; the pace of expansion may be taken down a notch, but we fully expect the developing world to get back on track by the end of this year or the beginning of the next and continue to grow at a decently rapid clip over the medium term. And not just China, but the majority of emerging countries in Asia, Latin America and elsewhere.

But the point here is that this is not a “new emerging order” at all. In fact, this is nothing more than a return to the “old” order of the 1950s, 1960s and 1970s, when developing countries grew at a swift and relatively steady pace, and their asset markets provided more sustained financial gains over a longer period of time. To use a

∞ *Mr. Anderson is the global emerging-markets economist at UBS.*

popular phrase, this is not “decoupling” under the strictest definition of the word, since both the emerging and advanced blocks clearly move together in response to near-term shocks—however, it is very much a decoupling in the broader sense, as emerging markets can once again grow faster for any given rate of global growth.

The Theoretical Backdrop

ECONOMISTS BEGAN THE 1950s and 1960s with high hopes for the postwar, postcolonial developing world. After all, one of the most basic tenets of modern growth theory is that poorer countries “should” grow faster, allowing them to catch up with their more advanced neighbors.

Rich countries are rich because they already have made the historic shift out of agriculture into light manufacturing, and from there through heavy industry and into services, i.e., they “moved up the value-added chain.” But this leaves them little room for further relative specialization or sectoral adjustment. In addition, most advanced countries now have a stable or declining labor force, with consumers who have more or less fully taken advantage of leverage and credit opportunities. The high stock of existing capital implies that the “bang for the buck” on new investment is low, especially considering depreciation.

From the emerging side, the exact opposite is true: Low-income countries are labor-intensive with high theoretical returns to new capital investment, and thus stronger incentives to save and invest. They also have very underlevered consumers and firms, and underdeveloped financial systems. Sectorally, there is still lots of room to transform from low-end agriculture and basic industries to high value-added manufacturing and services, with continued strong population and labor-force growth over the next few decades as well. Many emerging markets have protected econo-

mies with distorted price incentives and can see very strong gains simply by liberalizing markets. Finally, ever-easier access to global information, technology and best practices should allow for strong productivity gains as they play “catch-up.”

At least so it goes in theory—and for a couple of decades this was very much the reality as well. The early 1960s through the late 1970s were a “golden” period of emerging growth, with a steady average of 6% per annum real GDP expansion compared to less than 4% for the United States and Western Europe. Moreover, growth was very broad-based; there wasn’t a single developing region, including Africa, the Middle East and the Soviet Bloc, that failed to achieve at least 5% real growth during that time frame.

Even when the first global oil shock hit in 1973-75, most emerging countries sailed through relatively unaffected, in sharp contrast to the painful recession in the developed world. And investors made money. Between 1965 and 1980 the dollar-adjusted return on nascent equity markets in Mexico, Hong Kong, Taiwan, Brazil, South Africa and other lower-income nations ran into the hundreds of percent—while indices in the U.S. and Europe were essentially flat over the same 15-year period. Emerging-bond holders also made consistently higher returns against Treasury and Eurobond debt.

However, this honeymoon eventually came to a fairly abrupt end. The 1980-82 recession hit the world a lot harder than the 1973-75 shock and for the next 20 years the developing world simply imploded. True, Asia’s “tigers” and other neighbors continued to do exceptionally well, pushing real growth to around 7% year on year for the Asia ex-Japan region as a whole, but for the rest of emerging markets the numbers were simply awful. Not a single other region managed to get past 2.5%, and for the former Soviet bloc in particular the two de-

decades were entirely wasted, as the breakup and malaise of the 1990s completely reversed any gains in the 1980s. In per capita terms, developing countries barely scraped by with 1% real growth in 1980-99, compared with nearly 2% in the advanced economies, and if we exclude emerging Asia the pace was actually negative for most remaining low-income regions.

In other words, for two whole decades the “emerging” world didn’t emerge at all—it actually sank. So did investment returns. Developing-country debt was hit particularly hard, given the rolling waves of restructuring and default that devastated bond holders in many markets during this period, but stock markets did poorly as well. Emerging equities managed to keep up with their buoyant U.S. and European counterparts during the 1980s, but the most famous truism from the ensuing decade was that a dollar invested in Asia on Jan. 1, 1990 was still worth a dollar exactly 10 years later, while advanced country stocks offered a nearly four-fold return over the decade.

But around the beginning of the current decade, something happened: Emerging markets started to take off. Between 1999 and 2008 the developing world suddenly rebounded to a record 6% growth pace—and a pace that once again included every developing region: Africa, Latin America, Asia, Eastern Europe and the Middle East. And this despite the fact that advanced countries were struggling to achieve only half of the growth they saw in the previous decades. Moreover, emerging markets made money once again. From 2000-07, developing equities outstripped their advanced counterparts by a factor of three or four, and emerging debt won out by a comfortable margin as well.

At the time it was all too common to dismiss these outsized gains as an anomaly, a short-lived bubble—and if so, the events of 2008-09, with the single most

devastating collapse of global trade and financial flows in the postwar era, should have put the story to rest. Only they didn’t; one of the biggest surprises of the past two years is how little emerging markets were affected. Economies and markets have fallen all across the world, of course, but consider the following numbers: From the June 2008 peak, advanced GDP has fallen by around 4.5% in real terms over the last 12 months; for the developing world, the corresponding figure is only 1%. In fact, according to our latest projections, developing countries will grow by just under 1% for the year 2009 as a whole, compared to a contraction of 3.5% for advanced economies. The same holds for financial markets. Again, nearly every major asset class fell sharply in the current crisis, but as it turns out a dollar held in emerging stocks or bonds on Jan. 1, 2008 was still worth more 18 months later than a similar investment in U.S. or global equivalents. In short, over the past decade there has been a major structural resurgence of developing-country growth—the “new emerging order”—and one that not even the worst economic crisis in postwar history has been able to derail.

How did we get here? Aren’t emerging markets just a high-bet, a play on global growth, completely dependent on exports to their wealthier neighbors? In a word, no. Of course export-demand matters—as we saw vividly in the past 12 months—but one of the most striking features of the last 50 years is how little a role developed-country demand has played in explaining structural growth swings. From 1962-79, when the emerging world was at its peak performance, exports to advanced economies grew at an average rate of 7% in volume terms. What was the corresponding export growth rate from 1983-99, when most emerging economies were struggling to expand at all? Again around 7%. And over the past eight years, as the emerging world ex-

ploded in resurgence of dynamism? Still essentially the same old 7% pace. So it's not "globalization" or "outsourcing" that got us to where we are today. Or, to put it another way, it's not the emerging "beta" that has changed; rather, the real swing factor has been the "alpha," the underlying, independent rate of emerging growth.

What drove that alpha up since 2000? For many readers the most logical cause would be the rise of China. And to be sure this has been an astonishing decade for Chinese growth, with the mainland economy expanding at a 10% annual pace, far in excess of the emerging average. But ironically, as far as the rest of emerging markets are concerned this really hasn't been it at all; if we go back and methodically strip out both China itself and all export shipments to China out of the data, we get almost exactly the same relative resurgence and out-performance in the remaining emerging countries vis-à-vis the 1980s and 1990s. Nor, interestingly, was it the recent commodity boom. If we divide emerging markets into natural-resource exporters and importers we find no difference whatsoever in their average growth behavior since the beginning of the decade. Indeed, it wasn't higher commodity prices that drove emerging growth, but stronger emerging growth that drove up commodity prices.

The Role of Balance Sheets

WE ARE LEFT with one crucial factor that in our view explains nearly all of the recent resurgence: balance sheets.

What do we mean by "balance sheets"? Let's step back again into history, this time with a closer look at the macroeconomic fundamentals. Most developing countries began the postwar era with a relatively clean slate—low debts, small governments, budding financial systems and balanced trade. But over the course of the boom years in the 1960s and 1970s, the emerging

world progressively let loose; official spending ballooned alongside a wave of external borrowing, trade balances fell into strong deficit and local banks began lending out rapidly.

By the end of the 1970s, emerging markets were already becoming a very different place, plagued by government profligacy, incipient credit bubbles and increasingly unsustainable external positions. As a result, the onset of the second oil shock and the 1980-82 recession marked the beginning of a 20-year wave of rolling economic catastrophes, beginning with the Latin American and African debt crises and continuing through the fall of the Soviet Union, China's own mid-1990s postbubble meltdown, the Mexican crisis, the turmoil of Asia's financial collapse, then Russia, Brazil and finally Argentina.

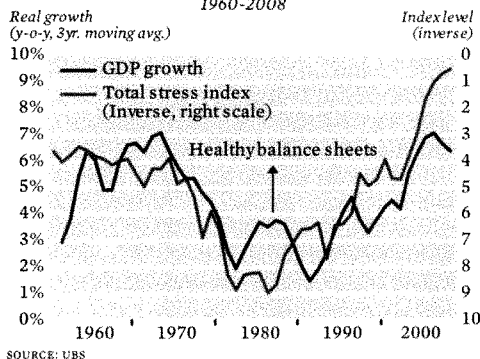
In the 1960s cases of hyperinflation or currency crises were virtually unheard of. By the 1980s, however, there were nearly a dozen countries recording headline inflation rates of more than 100% annually, and as many as 20 whose currencies lost more than 50% of their value each year. At the peak in the early 1990s, at least 25 developing economies had lost control of inflation and 40 were threatened with exchange-rate collapse.

And then nothing. The 2001-02 Argentina crisis was essentially the "last gasp" in the emerging-crisis cycle, and for the past seven years we have seen only one case of financial turmoil in Zimbabwe. Even in the worst throes of the current global collapse, there has not been a single additional example of a full-blown currency or financial crisis in the emerging world to date (although a number of Eastern European countries remain under potential threat).

No wonder growth returned! After two decades of macroeconomic horror, the emerging world had written off debts, written down loans, cleaned up banks, reset currencies and opened markets. Indonesia

STRESS, WHAT STRESS?

Aggregate stress index for the developing world,
1960-2008



is a good representative case. A decade of lax management and economic complacency in the late 1980s and early 1990s left Indonesia with an unsustainably sharp run-up in credit and leverage at home and rising deficits abroad—all of which contributed to the vicious 1998 collapse of the rupiah, the banking system and the Suharto government. In the initial aftermath, private-sector credit was written down to almost zero, the government was forced to maintain a cautious budgetary stance in the face of inherited debts and the economy went into external surplus.

And for the ensuing 10 years this continued to be the case, with only moderate leverage growth at home and a continued favorable fiscal and external balance. As a result, the Indonesian economy has grown at a steady 5%-plus pace—and barely bothered to slow down over the past 12 months during the most virulent global crisis of the postwar era.

In the chart above, the green line represents an emerging “stress index” for the developing world as a whole, calculated using the four most standard measures of macroeconomic risk: external and public debt as a share of GDP, the size of the fiscal deficit, the external current-account balance, and the change in domestic leverage as measured by the credit/GDP ratio. For each measure we scaled the results from 0

to 10, and then took the average reading to obtain the aggregate index (the index is shown in inverse scale on the chart).

Again, developing countries began the 1960s with low stress readings (low debts, moderate leverage, little borrowing) but the index rose sharply during the 1970s and reached extreme levels over the course of the 1980s. Stress levels then collapsed for the next 10 to 15 years in the ensuing round of crises, and as of the middle of the current decade had already reached the lowest level in recorded history. And this, of course, is very highly correlated with average path of emerging GDP growth over the same period, as shown by the red line. Low-income balance sheets today are as clean as they have ever been, and this, more than anything else, explains the return of the emerging “alpha.”

Distilling the lessons of the past 50 years into one paragraph: Emerging markets are not only supposed to grow faster, they do grow faster—as long as they don’t drive up debt and leverage imbalances to the point where it all falls apart. And at some point down the line, perhaps a decade or so away, this will probably be the case again as we inevitably swing back to the “bust” side of the boom-bust cycle. But for the time being, all the preconditions are in place for a protracted period of strong emerging growth.

Based on actual modeling results, over the next five years, we expect the developed world to grow at an average annual rate of 1.5% to 2%, well below the pace of the past half-decade, especially when you consider that this follows an extraordinarily low 2009 starting base. For the emerging world as a whole, the number is 5% to 6%.

In terms of individual regions, the clear winner is Asia, with average growth of 7% to 7.5%, driven by larger markets such as China, India and Indonesia. This is a very hefty gap, and one that is very likely to continue to reward investors who take advantage of the opportunity. ■



How China's Steel Mess Was Forged

by Joe Studwell



IS THE RIO Tinto case interesting? The question is a little churlish. For Rio employees Stern Hu, Liu Caikui, Ge Minqiang and Wang Yong, five weeks' detention—two days short of the statutory 37-day maximum—at the pleasure of the Shanghai branch (reputation particularly unpleasant) of China's State Security Bureau is almost certainly the most interesting thing that has ever happened to them. Since accusations tantamount to espionage were set aside in favor of more pedestrian charges of bribery and theft of trade secrets, and the Shanghai Public Security Bureau has taken charge of the case, it is hopefully a little less interesting.

The bigger question is what the Rio case and its essential context—China's handling of multibillion dollar iron ore imports—tells us about the state of the nation. There are two points, the first well known to almost everybody, the second a little less obvious and more interesting.

The first point is that the lamentable handling of the case—the resort to the state-security apparatus, the detention

without access to lawyers, the idiotic claim that China's steelmakers have overpaid for iron ore by more than \$100 billion—all point to a society where rule of law is neither keenly pursued nor necessary to narrow economic development.

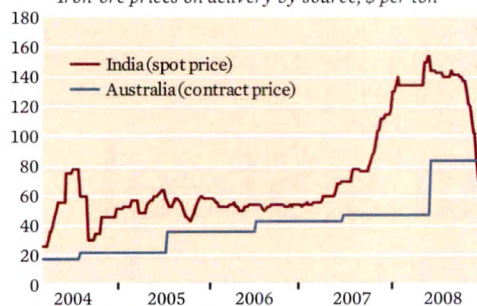
China's developmental model is actually predicated on weak rule of law, and this is unlikely to change in the foreseeable future. To be fair to the Chinese state, it has never misled anyone about this. The country's constitution commits it to "socialist rule of law." This is less like Anglo-Saxon rule of law than it is a restatement of the seminal socialist ideologue Georgi Plekhanov's dictum: "The supreme law is the welfare of the revolution."

China's current revolution, of course, is its economic one. Throughout the development process, the country's leaders have used vague property rights and a biddable legal system to induce competitive forces that might otherwise have been absent.

Mr. Studwell's latest book is *Asian Godfathers: Money and Power in Hong Kong and South-East Asia* (Atlantic Monthly Press, 2007). He is currently writing a comparative history of development in Asia.

BENCHMARKING BREAKS DOWN

Iron-ore prices on delivery by source, \$ per ton



SOURCE: MACQUARIE RESEARCH

State sector managers, local politicians, private entrepreneurs and farmers have been driven to build businesses on the basis than that they *might* own the assets they work with. Ambiguity has been essential to China's transition away from almost complete public ownership. It is not the laws that have led investment, but the promise of growth and surplus.

The obvious point of contrast is the Russian voucher-privatization program of the early 1990s. There the legal situation was crystal clear. All entitled citizens owned a piece of the state's assets, embodied in the vouchers they were given. But in the absence of widely diffused information as to the value of the assets, the experiment was a disaster. A few well informed individuals with links to the banking system stepped in and bought up the vouchers at massive discounts to their long-term value. The result is an economy dominated by rentier billionaires who cruise the Mediterranean on outsize yachts and buy foreign soccer clubs instead of working in the developmental interests of their country. A pale imitation of this scenario exists in Southeast Asia.

China is not a law-led state and this has sometimes been a good thing in handling transitional property rights: It is hard to steal or expropriate assets with no clear legal identity, so state and private entrepreneurs have focused more on sweating the

assets they have access to, but not clear ownership of. Unfortunately, legal opacity and a general contempt for due process have huge knock-on effects for ordinary people, as the Rio Tinto employees learned. Much more ordinary people—none like Stern Hu with a Chinese ethnicity but an Australian passport—run up against the Chinese Leviathan and discover the same thing every day.

The first conclusion to be drawn from the Rio case is not—as some influential academics suggest—that a country like China has to have more rule of law in order to grow. This has been, and still is, palpably untrue. Nazi Germany and Stalin's Russia, after all, grew like topsy. Instead, the case for rule of law rests on a broader definition of development than just GDP growth.

Amartya Sen has observed that the debate about democracy's relationship to development is based on a false distinction—democracy is a part of development so the question of whether it is a condition is irrelevant—and the rule of law is no different. The right of habeas corpus, access to legal counsel, public court hearings, avoidance of prejudicial actions prior to cases—witness Chinese deputy foreign minister Liu Jieyu telling Australian television that the Rio Tinto employees would go down in an Australian court and ask yourself why a foreign minister is privy to the purported facts of the case—are all matters of institutional development that require no economic justification. China, to put it bluntly, is now economically a middle-income state but institutionally a backward one.

THE ABOVE IS the part of the Rio saga that anybody familiar with China can work out, and probably has worked out, for himself. The less explored part of the story is the extent to which the seaborne iron-ore trade that provides the backdrop to the Rio arrests is a microcosm of the problems and vagaries

of China's economic development model. Beyond the screaming and shouting and name-calling lies a morality tale about China's unprecedented, and hence deeply unpredictable, developmental policy mix that is half statist and half neoliberal.

To understand this, one must understand a bit about the history of ore trading. Prior to World War II, steel mills in Europe and North America were built next to iron-ore deposits. But with the advent of larger ships and lower transportation costs, post-war planners in Japan, Korea and Germany figured they could make internationally competitive steel based on imported raw materials. Many economists—particularly American ones sent to support the reconstruction of new Cold War allies—thought the economics of steelmaking in Japan, and particularly Korea, made no sense. They were wrong.

The Japanese, and the Koreans in their wake, built steel, nonferrous metal, and shipbuilding industries based on integrated, long-term investment and financing plans. Nonplan investment was prevented through moral suasion—industry associations in Japan and Korea were highly cohesive and effective organizations—as well as financing constraints for anyone not inside the plan.

The Japanese were particularly punctilious planners, typically looking ahead in great detail on a 10-year horizon. Critically, they did not simply plan their own activities, they also planned those of their suppliers. In the steel industry, foreign iron-ore miners became habituated to a perennial ritual of going to Japan to discuss not only order volumes and prices, but also technical details and the miners' own investment

plans all in excruciating detail.

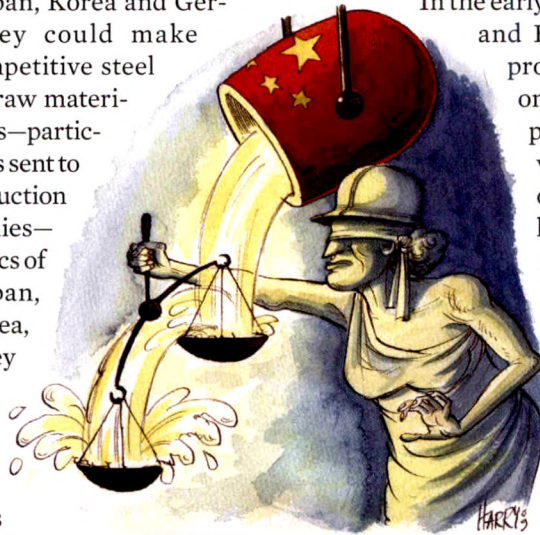
The outcome was that the miners knew, more or less, what was going on in Japan and Korea, and Japan and Korea were able to ensure that ore output expanded in line with their import requirements. Overall, indeed, the Japanese and Koreans were adept at making miners produce a bit more ore than they really needed, so their highly profitable steel industries grew up in bearish commodities markets.

You cannot, of course, plan everything.

In the early 1980s, the Japanese and Koreans ran into a problem with the second oil shock. Transportation is the key variable in the cost of seaborne ore and a high oil price made shipments of ore from one of the world's two key exporting regions, Latin America, increasingly uncompetitive in Asia. Japanese and Korean steelmakers

thereby faced a trend to rising dependency on Australian producers. They, and Japan's Ministry of International Trade and Industry, did not like this because of cost implications as Australian miners gained pricing power, and because at the time Australian mines were subject to frequent industrial action by powerful unions.

So the Japanese, supported by the Koreans, did a very clever thing. Despite the fact that transportation costs had gone up, the commodity market was far from bullish. Japan and Korea formed the bulk of the world's seaborne iron-ore market, which they largely created. Investment capital in the 1980s was expensive because of high global interest rates. But Japanese and Ko-



HARRY HARRISON

rean banks, protected by capital controls, were stuffed full of cash at just the moment Latin America was experiencing a debt crisis. So Japan and Korea offered to finance Latin American, and some Australian, mine investments and to guarantee to buy minimum volumes of iron ore. Uniquely among traded commodities, from the mid-1980s prices were to be set once a year, based on the latest year's relationship between supply and demand.

The net effect was that Japan and Korea kept Latin American producers in business in Asia. The single new "benchmark" price was agreed "free on board," or without transportation costs included. The buyers swallowed the transportation differential between Australian versus Latin American ore in the interests of a more diversified supplier base. As the oil price fell in the second half of the 1980s and 1990s, steelmakers were able to react to periodic Australian demands for higher ore prices by shifting volumes to Latin America. The miners, as one experienced Australian executive puts it, "copped it."

The moral of this story is that the Japanese and the Koreans made a plan and stuck to it. Partly as a result, they were able to build large steel industries in what continued to be a buyer's market for iron ore.

WHEN CHINA ARRIVED. With the benefit of hindsight, China disrupted the iron and steel industry in two ways, first by an almost complete failure to stick to plans, and second by an increasingly important bifurcation between a group of traditional state-sector producers and a new group of private, and sometimes messily hybrid state-private, producers. The tension between these two groups is at the root of the failure to stick to plans: The former cannot be forced out of business, the latter cannot be prevented from getting into business.

That China was different should have

been apparent from the outset. To most industry players it was not because the China difference did not matter. Chinese iron and steel production began from a low base and the big producers' limited requirements for iron-ore imports—China has its own iron ore deposits, just not many cheaply accessible high quality ones—were comfortably accommodated within the benchmark-price, term-contract system. Steel output jumped by half as a result of the 1992-94 investment boom that followed Deng Xiaoping's "Southern Tour," and massively outstripped government plans, but the low-base effect was such that it did not have a serious impact on global iron-ore prices.

Fast forward to China's next investment boom, beginning in 2002. Here the underlying pattern has been the same, but the outcome very different. By 2000, China already had steel output around 1.5 times that of Japan, so the country was capable of global effects. From 2000-09, China increased output by more than three times, accounting for over 70% of all new steel capacity in the world in that period. Steel production last year, 489 million tons, constituted 36% of all steel produced on the planet. In the late '90s, the then Ministry of Metallurgy published a long-range plan in which it said the targeted upper limit for Chinese steel output was 142 million tons.

The Metallurgy Bureau has had plans, the National Development and Reform Commission has had plans, government-run producer group China Iron and Steel Association has had plans, but none has informed reality. Beijing has been unable to guide the steel industry's development—although it effectively finances it through the state banking system—with the country's 31 provinces and provincial-level cities making their own plans about how much capacity makes sense.

Some provinces, usually ones with old steel industry bases, have backed the ex-

pansion of existing state sector steel producers while others favored private sector plants whose massively increased capacity now accounts, by an estimate from Australian investment bank Macquarie, for 45% of Chinese production. Where Japan and Korea built their steel and ship-building capacity with one eye fixed firmly on the iron-ore supply situation, China has both eyes looking at capacity.

The upshot is that while global steel prices less than doubled between 2000 and 2008, the price of iron ore quadrupled. In the same period, China's iron-ore import bill went from a couple of billion dollars to \$59 billion.

China has so far exceeded expected steel output that it has blown a hole in the term-contract system for buying ore, inducing a large spot market where prices have been two to 2.5 times those set annually by the benchmark system. Even though the benchmark price went up to \$83 per ton in 2008 from \$17 in 2004, the benchmark system miners—BHP Billiton, Rio Tinto and Brazil's Vale—have been unwilling to offer higher volumes at a one-year fixed rate when the spot-market price is so much higher.

The spot versus benchmark differential means that mostly state-owned mills with access to benchmark quota have been getting ore cheaper than they would in a unified market, while mostly private mills have been paying more because about half of current supply is tied up in the benchmark system. Chinese mills and state trading companies with quota access have bought up all they were allowed to and on-sold what they did not need at or above the spot price. As one loosely indicative example, turnover at the trading subsidiary of China's then-biggest steelmaker, Baogang,

jumped 115% in the last full year before the financial crisis, to \$2.7 billion.

The differential between benchmark and spot prices pretty much guarantees corruption and ill will. There are massive incentives to pay money to gain quota access and those without quota loathe those who have it. But the overarching reality is that the whole world is paying a lot more money for iron ore because of China. A combination of dispersed political and financial power—both across provinces with

country-like populations and within central government—and an ideological uncertainty as to whether to favor plan or market, has opened the way to murderous levels of capital investment as the country has gone to more

than one-third from 10% of global steel production in less than a decade.

When the global financial crisis hit last year, the China Iron and Steel Association—largely a collection of old-style industry apparatchiks that was supposed to negotiate this year's benchmark price on behalf of Chinese mills—figured it would use China's vast capacity to beat the price down. This showed a poor grasp of business. Where the Japanese and Koreans sorted out the ore and then built the capacity, China wants to do things the other way round. The miners, now consolidated into very large firms and run by bean counters rather than the boozy engineers of yore, know that this is no negotiating position at all.

Earlier this year the big three refused to meet CISA's demands and there is now no Chinese benchmark price. Executives at the big three say that for the most part they are giving existing agreed volumes to Chinese buyers based on the 2009 benchmark price agreed with Japan and Korea. But everything else is being determined by a spot

China's development model is predicated on weak rule of law. This is unlikely to change in the foreseeable future.

market that is flying once more. The orgy of bank lending this year as China moves to debt stimulus and construction booms across the country (more than half of Chinese steel is used in the construction sector) mean that both steel output and iron ore imports will set new records in 2009. As of late August, most analysts think ore imports will break through 500 million tons, the question being by how much.

WHAT CAN CHINA do? Probably nothing. China's dirigiste ambitions versus its often chaotic reality, its competing fiefdoms and its ideological uncertainty put it over a barrel. The development of almost all manufacturing—cars, chemicals, consumer goods, and so on—has been characterized by chaotic, unplanned growth, as leaders like Premier Wen Jiabao regularly attest. Yet effective investment anywhere has to be planned in some way, either on the input side by the price and quantity of available capital or on the output side by bureaucratic fiat. China is not very good at the first, and not very good at the second. So in any given value chain when China needs something it does not have or cannot make itself, exporters to China find themselves in a strong position.

Some people say this is a temporary phenomenon. China is so big that eventually it will make and dig up everything it needs itself. But this is not presently the case with iron ore. And apparatchiks at CISA and in central government—ones who, to distil China to its current core, go to the Party School but are assigned Paul Samuelson—are enraged by what they see as a conspiracy of foreigners to take advantage of China.

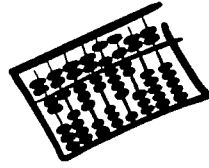
This is the background to the Rio Tinto case. There is little doubt that investigators have some evidence against the Rio employees, as they have against Tan Yixin, an executive at Capital Iron & Steel who

was also detained in July and arrested in August, charged with selling commercial secrets. But even if the deputy foreign minister is right and convictions are obtained that would be upheld in Australia, where is the surprise in an industry in which government provides hopelessly inaccurate projections, regards information as a state monopoly and permits a two-tier ore price that encourages corruption?

More interesting is how the Rio defendants are treated. Senior cadres will want convictions and punishment, since anything less is an unspeakable loss of face. But if the evidence presented does not stand up to international scrutiny, China has a new problem. Stern Hu holds an Australian passport and the Australian government has made clear its intention to ensure he is treated according to international norms. If the evidence isn't up to much, the pressure will be to convict Mr. Hu and let him go on spurious medical grounds. True to form, China will then put the boot in more firmly with the Chinese passport holders.

This ought to be the biggest loss of face of all: treating Chinese people worse because they have no foreign passport. But it is not, because, as noted at the outset, China's leaders have no serious commitment to Anglo Saxon-style rule of law. When push comes to shove, they will not trade socialist rule of law for having the world think better of them.

The people who do care are other ethnic Chinese businessmen like Stern Hu who hold foreign passports. As one example, because of links to the renewable energy department of the University of New South Wales, the top-most echelon of China's solar energy industry is heavily populated with ethnic Chinese who hold Australian passports. It is that kind of person, who has made a decision to place their nationality with a different kind of jurisdiction, who will be watching this case very closely. ■



Beijing's Private Equity Revolution

by Ken DeWoskin



LAST MONTH BEIJING introduced two important reform measures that will energize the private-equity field and have a dramatic effect on investment in China. The State Council defined new forms of partnerships, and the National Development and Reform Commission drafted a legal platform for equity-investment enterprises. While still lacking the details needed for implementation, together the two will effectively legalize yuan-denominated private-equity funds under foreign or joint-venture control.

However, this development, while important in its own right, is part of a far bigger change in the allocation of capital in China. To understand why, one must first grasp the fundamental problem facing the economy. China's leaders have been seeking a way to direct capital to entrepreneurial companies without forgoing an opportunity to ensure that their own state-owned enterprises benefit from the redirection of capital. Private equity may prove to be the perfect work-around.

State-owned companies, which tend to be the least efficient, have ready access to

cheap credit from the state banks, while privately owned companies, which have driven the country's growth over the last three decades, are starved of capital. Reforming the banks will take years if not decades, and the government's response to the global financial crisis, a dramatic expansion in lending for big projects, has only exacerbated the problem. How to get the money from the SOEs into the hands of those can put it to most productive use?

The answer may lie in the lure of higher returns and lower volatility offered by private-equity vehicles, which will attract the excess funds of the SOEs. Managers will have an incentive to become, in effect, institutional investors, rather than parking their cash in the bank or speculating in stocks and real estate.

A New Chain of Capital

THE CHINESE ECONOMY is currently flooded with liquidity thanks to the government's

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stimulus policies, but the lending is not driven by demand for capital, except in a few sectors like telecom. Several years of tight credit policies have conditioned the SOEs to take loans when they are available, whether or not they need it for their businesses. This has begun to create a new role for SOEs as intermediaries of investment into other parts of the economy. A large number of cash-generating SOEs have developed active portfolios, investing outside their sector in banks, funds, retail chains, property and industrial assets. According to an analysis by The Conference Board, borrowing outside the official banking channels has escalated rapidly this year.

Even as lending far surpassed demand for new SOE industrial capacity, the small- and medium-sized enterprises were deprived of growth capital. Official media reported that as little as 5% of new bank lending went to SMEs, even though SMEs grew at 37% in the good year of 2007. No one challenged the idea that China's privately owned SMEs, many in services, were potential engines of fast employment growth. But it appeared that the credit tide would not directly benefit them.

SOEs are hardly the optimal vehicle for the role of financial intermediary. Their management lacks the capacity to manage funds of the size involved, so there is an urgent need to find professional hands into which they can be put. And even then, there is risk associated with the asymmetry between their assets and liabilities. Their debt obligations to the banks are fixed-term and fixed-interest. Even with very little leverage, the SOEs are exposed to huge volatility in the stock and real-estate markets. The big SOEs are critical to the foundation of China's real economy, and a sharp contraction in the value of their investments would pummel their balance sheets.

Even so, the SOEs in their role as financial intermediaries could prove transformational. With the opening of PE activity,

SOEs now have the opportunity to avail themselves of the world's best money managers by investing as limited partners in foreign-owned funds and an expanded gallery of domestically owned ones.

There are at least three potential benefits to this development. First, the SOEs collect rent as financiers of growth companies and reap windfall profits if they go public, taking a share of the capital gains of foreign and private investors. Second, the SOEs get a good look at some of China's best growing companies, putting them in a good position to acquire them. Third, investment decisions are distributed, and capital is made available to the fast-growing SME sector on an equity basis, not a loan basis, potentially yielding a much greater return for the state's capital. It is a better financing structure than bank lending to SMEs directly, given the sheer numbers of candidates and limited capacity to manage the credit risk.

China's private-equity landscape is like no other in the world. Equity investors, the most capitalist of financial agents, may be beginning to take a prominent role in the reform process, but the differences between Chinese equity investors and their global counterparts are not simply those of scale and maturity. They reveal the hybrid fabric of China's economy.

The "private" in Chinese private equity cannot be taken to mean such investors are fully market-driven or their capital is private. Most important to grasp is the complex mix of domestic and foreign players, private and public monies, processes, and projects and an unfolding transformation of capital linkages. Such mixing and transformation is now intensifying, energized by China's liquidity-propelled recovery.

China has been hugely successful, in fiscal practices and monetary policy, in attracting direct foreign investment and listing its SOE companies abroad and at home. But throughout the reform era, domestic capital from bank lending and re-

tained enterprise earnings were the overwhelming sources of fixed-asset investment flowing into both infrastructure and industrial capacity. As stimulus policy drove those investment pools sharply larger, it became obvious that more efficient and diverse allocation was urgently needed, and investment laws needed reform.

Legitimizing Private Equity

WITH RECORD LEVELS of liquidity and liquidity growth, relevant ministries embarked on policies to rationalize and diversify financial services. China was not without equity investors, but mixed performance of old and new players up to and throughout early 2008 resulted in concerns about the shortage of a competent cohort of investment professionals. Even as China piloted new entities to manage investment capital, such as the first wave of industrial investment funds in Shanghai, Tianjin and Guangdong, senior leaders from organizations such as the State Asset Supervisory and Administration Commission were openly critical of the capability of Chinese enterprises to acquire strategic stakes, especially overseas.

SASAC's itself had used the tools of private equity for the better part of a decade to drive consolidation and competitiveness of China's largest enterprises. SASAC had its successes, but they achieved more scale than efficiency of scale, and their efforts touched only a part of the economy.

Multinational private-equity players had eyed China for a decade, but their interest increased sharply as financial leverage for North American and European investments all but disappeared in the crisis. Earlier, a small group of "domesticated" foreign-funded equity investors was active, at limited scale and focused on pre-IPO technology candidates. From 2002-06, however, PE and venture-capital money for China funds grew to \$16 billion from

less than \$1 billion, even though they faced high valuations and regulatory blocks, including a clamp-down on offshore holding vehicles.

A pioneering private equity investment (PEI) example was the Shenzhen Development Bank. It was nowhere near ready for a public listing and the foreign fund, TPG, took a very active role in governing and re-engineering the bank. Other large-scale deals, such as the bids for Fuyao Glass and Xuzhou Industrial Machinery Corporation, dragged out into a protracted series of fallback positions and ultimately did not close. Key decision makers publicly queried whether China needed foreign capital of that sort at all.

But progressive voices began calling publicly for China to embrace private equity and invite established and successful funds in. Officials such as central bank Vice Governor Wu Xiaoling were outspoken, and the door began to open. Long debated legislation like the Antimonopoly Law specifically mentioned treatment of equity funds, basically confirming their future place in China's financial landscape.

Developments have been fast and furious for at least the last two years. PE and VC funds, conferences, associations and deals became the central channel of foreign investors in China. New funds are now announced on a weekly basis, and very large investors are scouring every region of China and every sector for targets.

Along with the enormous growth of capital and players seeking targets, last year witnessed deals by almost every conceivable combination of foreign and domestic funds, as well as private and public capital. The National Social Security Fund has put billion of dollars under the management of China-based but originally foreign-funded PEIs. Industrial-investment funds, asset-management companies, and even the State Administration of Foreign Exchange have closed deals or en-

tered cooperation agreements with PEIS.

For several years, domestic mergers and acquisition transactions in the sweet middle tiers have outstripped crossborder deals in monthly tallies by factors of 10 to 20. Foreign PEIS have been itching to establish yuan funds that would remove regulatory hurdles and enable them to move more quickly and decisively.

As China's liquidity soared, the appetite for domestic limited partnerships intensified that interest. Foreign funds were at a great advantage with experience, prestige and credibility, but domestic funds got the deals done. For years, foreign funds piloted various work-arounds, but in August came the sudden announcement of the legal basis for foreign-owned yuan funds.

As soon as the new administrative measures were made public by the State Council and NDRC, wholly foreign-owned and joint-venture yuan funds were announced by Blackstone, First Eastern and CLSA, with KKR and Carlyle soon announcing they were in talks. As many as 100 foreign-owned yuan funds could be set up by the end of 2009. By one count, on the eve of NDRC's formal submission of new rules, China had 586 equity-investment funds with some level of formal recognition.

There are two important drivers of this sudden bloom of funds. First, at the national level there is sufficient consensus on two points. Financial investors need to be integrated into China's capital-allocation process. And more professional financial management needs to be brought in quickly. Recently regulatory authorities have required the Chinese Academy of Sciences, founder of Lenovo, to sell a 29% stake in the company to a government-owned pension or insurance fund, in accordance with a new policy promoting financial investors.

Secondly, at the local level there is intensified competition for investment capital and financial services. Shanghai's Pudong New Area has long been the home

of pilot projects for foreign financial services, so it is not surprising they were in the first wave of local governments to open the door. Shanghai needs important PE and VC investments to meet the goal of becoming Asia's financial hub by 2020.

LPs: Reform or Retrenchment?

THE TRANSFORMATIONS WE are describing here are interesting when viewed against the long history of postreform investment capital. Evolving from a single window of budget allocation from the national government, equity investors and lenders in China diversified into a jungle of local banks, credit unions, credit guarantee companies, ITICS and grey channel bankers. Like many initiatives of the current economic recovery, easy lending to SOEs and enabling them as financial investors provides diversity in normal times, but allows tight control in extraordinary ones. At the same time, more technical skills are being brought into the mix with the integral participation of many of the world's most capable and established money managers.

Foreign-owned yuan funds are seeking to raise most of their money on shore, and they understand the importance of government and SOE support in doing that. They also anticipate assistance on the investment side from their local investors in navigating China's merger and acquisition hunting grounds. Foreign private-equity funds should recognize that this is a new kind of LP, more engaged in fund activity than a LP in the United States or Europe.

Making this partnership work is critical. There is a new mix of players and they are all untested in their new relationships. It remains to be seen whether this will produce a genuine improvement in the efficient allocation of capital and progress toward stable and market-based asset and investment markets. ■



Behind the Dalai Lama's Taiwan Visit

by Julian Baum



THE IRONY OF the Dalai Lama's house call on Taiwan in early September was in plain view. No one, even in the Byzantine world of Taiwan-China relations, is more adept at keeping politics always in mind but subtly out of sight than the Tibetan Nobel laureate.

With advice from his "good friend" President Ma Ying-jeou to limit himself to religious and humanitarian activities, the Tibetan leader promised strictly to fulfill his "moral responsibility" as a Buddhist monk with "no political agenda."

In visits to those suffering from the island's deadliest typhoon, he would "share some of their sorrow, some of their sadness," he told CNN. As he went about his allotted task during five media-saturated days—his first visit to Taiwan since 2001—everyone else was free to do and say what they wanted. Among those least constrained were Dalai Lama's hosts, a clutch of local government chiefs from Taiwan's deep south—historically a stronghold of the pro-independence party—who jointly invited him to visit the disaster-stricken area and comfort survivors of the storm.

After Typhoon Morakot passed through on Aug. 7-8, the need for consolation was real as the suffering was severe, especially in mountainous areas where the storm dropped up to 9 feet of rain in less than two days. Hundreds died; many were buried in mudslides. Three weeks after the deluge, even Taoists and Christians were moved to see the world's most famous monk show up on their doorstep with words of comfort and goodwill.

For Taiwan's separatist opposition, including Chen Chu, feisty mayor of Kaohsiung, the visit was a political coup. They have been watching Mr. Ma's nonstop courting of Beijing for the past year with growing anxiety. Many were asking whether their government would ever stand up to China again. The president was clearly not ready to do so last December when he announced the time was not right for a visit from China's most famous "splittist." It might disrupt the reconciliation and deal making across the Taiwan Strait that are the signature achievements

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of Mr. Ma's government.

In the wake of Morakot, the circumstances had changed, at least long enough for the invitation to go out while the government struggled to get on top of its worst domestic crisis so far. In this moment of weakness, one Taiwanese paper said, Mr. Ma showed rare political courage by allowing the Tibetan back on Taiwan soil. Though newspapers have issued various opinions on the event, the controversy has confirmed the discomfiting depth of Mr. Ma's commitment to preserving a working relationship with Beijing. "They are certainly taking Beijing's attitude into priority consideration," said Hsiao Bi-khim of the Democratic Progressive Party, the main pro-independence group.

It's clear that the Tibetan leader's visit would not have happened when it did if August had not been such an excruciating month. For Mr. Ma, August exposed an aloof and seemingly uncaring side of his leadership. Nearly everyone saw television clips of mainly aboriginal villagers in remote mountain areas pleading with the once popular president for more help. As an emotionless leader struggled to respond to the outpouring of anger and grief, television cameras recorded many distressed moments of a government caught off-guard. Some critics say much of the blame rests squarely on the president's shoulders for failing to mobilize resources by declaring a state of emergency which could have sped up rescue efforts by several days. Another dysfunctional moment came at a press conference in which Mr. Ma and his senior ministers were subject to tough questioning. Perhaps attempting to sooth public anger, the president announced that the military's main mission in the future would be disaster prevention and rescue. The enemy was not Beijing, but "nature," he said, discounting China's 1,500 short-range missiles targeting the island. Defense Minister Chen Chao-min gently

corrected the record, saying that the military's responsibilities included defense as well as disaster relief. But his resignation was accepted the next day.

The failure to keep humanitarian activities free of politics extends mostly to the uncertain relationship with China. When the invitation went out to the exiled Tibetan government in late August, the National Security Council met for many hours to consider whether to allow the visit and how to minimize the inevitable tongue lashing. The ruling Kuomintang dispatched an emissary to explain the circumstances, though Chinese officials had already protested that they were "resolutely opposed" to the visit. "Obviously this is not for the sake of disaster relief," a spokesman for China's Taiwan Affairs Office said. "It's an attempt to sabotage the hard-earned good situation in cross-Straits relations." Beijing took care to single out Taiwan's pro-independence opposition for the exploiting the crisis "to plot the Dalai Lama's visit" while shielding their negotiating partner. There was no mention of Mr. Ma's role in approving the arrangements.

"Such behavior of Chinese officials runs contrary to the expectations of the Taiwanese people who anticipate the spiritual compassion and peace that the Dalai Lama represents," the leading opposition party said. On the first full day of the Dalai Lama's itinerary, the Kyodo News Agency said the Taiwan government had agreed with Beijing to limit his schedule, starting first with the abrupt cancellation of an arrival press conference, then with the relocation of a lecture on Buddhism from a 15,000-seat sports stadium to a hotel conference room, and announcements from senior Kuomintang officials they would not see him.

It's not as if Taipei was not attuned to Beijing's concerns from the start. In the immediate aftermath of the disaster, opposition leaders accused the Ma government of

delaying the acceptance of international aid for several days as they first consulted with Beijing. Three days after the storm, the foreign ministry instructed Taiwan's foreign missions to turn down international offers, except for cash donations. Those instructions were rescinded the next day and help eventually arrived from more than 70 countries. The ministry's flip-flop led to speculation that senior officials were worried about Beijing objecting to aid from the United States and Japan in the form of military personnel arriving on the island. But the general demeanor of the government was enough cause for complaint. "Looking back at the first week after Morakot, even if the Ma administration has not been colluding with the Chinese government, its arrogance and public detachment, combined with its eagerness to push cross-Straits relations, could still send

the wrong message ... and place Taiwan at risk," commentator Hoong Ting wrote in the pro-independence Taipei Times.

After the Nantou earthquake in 1999, the worst natural disaster in Taiwan's history, Beijing asserted that it alone could authorize international assistance for Taiwan. Yet most governments dealt directly with Taipei and sensibly ignored the interference. In the event, Beijing offered only \$100,000 in cash and a lesser amount in material assistance. This time Beijing was more circumspect and more generous. Almost certainly with Beijing's permission, a United Nations team from the Office of Coordination of Humanitarian Affairs flew in to assess emergency relief operations in the disaster zone, a rare contact with any U.N.

agency since China pushed Taiwan out of the U.N. in 1971. Beijing also engaged more directly, including donations of 1,000 prefabricated houses and cash of \$122 million, according to the People's Daily.

For the Dalai Lama, Taiwan is a unique place, not just one more place from which to plot the destruction of the People's Republic of China, as Beijing caricatures his intentions. For hundreds

of Tibetan monks who have taken up residence on the island in recent years, Taiwan looks like the antithesis of the People's Republic of China.

Earlier this year in a talk on the 50th anniversary of his escape from Lhasa and exile to India, the Dalai Lama described the repressive and violent campaigns against Tibetans under Chinese rule. "These thrust Tibetans into such depths of suffering and hardship that they literally experienced

hell on earth," he said in unusually bitter comments.

Taiwan, on the other hand, is an ethnic Chinese society that is open, democratic and practices freedom of religion while it respects Tibetan culture and religious beliefs. If not exactly a celestial kingdom with its crass consumerism and divisive identity politics, there is a broad tolerance of different religious faiths and diverse lifestyles. In some respects, Taiwan exemplifies what Tibetans would like China to be. Taiwanese and Tibetans also know from experience what its like to struggle against Han Chinese chauvinism, though the Tibetans have suffered much more from the encounter. These mutual interests and common challenges have drawn them closer



The Dalai Lama leads thousands in prayer on Sep. 1, 2009 in his first big public appearance since arriving in Taiwan.

in the past decade. During the Dalai Lama's first visit to Taiwan in 1997, one of his brothers expressed delight with the crowds that greeted their entourage. It was the first time the Tibetan leader had visited a predominantly Chinese society since his exile from Tibet in 1959. The outpouring of respect and admiration was a welcome antidote to the hostility and rejection heaped upon him by Beijing over many years.

The Dalai Lama has now reciprocated this support. Besides the many messages of encouragement to disaster victims as he made his rounds, he frequently affirmed the value of the democracy. He urged the Taiwanese to safeguard their democratic way of life. "The most important [thing] is democracy. That you must protect!" he said on one occasion. "You enjoy democracy, you must preserve it," he said elsewhere. Whatever their politics, Taiwanese could not have heard more timely advice.

When the Dalai Lama first visited Taiwan in 1997, the island was nearing the high tide of its democratic transformation. Lee Teng-hui had been chosen as the first popularly elected president one year earlier. There was still much discussion about the need for deeper political reform and a new, more appropriate constitution than the one imported from China a half century earlier. Even the KMT agreed that the remedy for the island's problems was more democracy, not less. The prospects for life under democratic government were bright.

Now many observers worry whether a functioning democracy is part of Taiwan's future. There has been noticeable backsliding on civil liberties and democratic rights in the 15 months since the KMT returned to power. Many citizens are uncomfortable with the revival of an unpopular Chinese nationalist ideology while they despair over a dysfunctional legislature with its supermajority of KMT seats. There is talk of "creeping unification." Even outside the

separatist movement, many Taiwanese question the government's heavy focus on China-centric economic and social policies and the secretive party-to-party negotiations with Beijing that are setting the course for an uncertain future.

Morakot's devastation may have briefly interrupted these ominous trends. Popular discontent over managing the rescue and recovery operations along with the worst recession in Taiwan's history have forced the president to pay closer attention to domestic matters and be more solicitous of public opinion. In a poll taken in August, fewer than 20% of Taiwanese adults approved of his performance in office.

No one really expects the popular backlash over the typhoon to bring down Mr. Ma's government or divert relations with China. A few officials have resigned, including the highly regarded Andrew Hsia, a vice-minister of foreign affairs. That, as well as the "apology tours" by Mr. Ma and senior officials across the island, may help to mitigate public outrage. Ultimately, Taiwan's voters should judge whether the Ma administration has acted responsibly on their behalf. The island holds local elections later this year, and there will be contests for big city mayors in early 2010.

Whether voters believe that the government's deference to China will be a slippery slope, leading to the avalanche of mistaken priorities that Beijing is counting on, will depend partly on the economic payoffs. So far, those pay-offs have been invisible as the economy is expected to shrink by 4% to 5% this year, the sharpest decline in more than 60 years. Unemployment is at record levels. With the KMT's ambitious program of economic and financial integration with China just getting underway, Mr. Ma is asking for more time, even as he denies concerns about compromising Taiwan's sovereignty. Thanks in small part to a visiting Buddhist monk, voters now may be less willing to give him the benefit of the doubt. ■



SBY'S Looming Islamist Challenge

by *Sadanand Dhume*

UNTIL THE JULY 17 suicide bombings of the J.W. Marriott and Ritz-Carlton hotels in Jakarta, conventional wisdom held that Indonesia's troubles with Islamism were over. In elections earlier that month, President Susilo Bambang Yudhoyono, a Fort Leavenworth-trained former general with a gentle demeanor and a taste for treacly pop songs, had comfortably coasted to a second term with 61% of the vote. Islamist support in parliament was at a historic low. Terrorists had not launched a successful attack on the world's most populous Muslim country in nearly four years.

Indeed, since winning the presidency in 2004, SBY, as he is popularly known, has overseen a remarkable turnaround in Indonesia's fortunes. Detachment 88, a professional antiterrorism police unit trained and funded in part by the United States and Australia, has arrested and prosecuted scores of terrorism suspects. Jakarta has tamed separatist movements in Aceh and Papua, and doused the flames of sectarian conflict between Christians and Muslims in Maluku and Central Sulawesi. Unlike

Malaysia or Singapore, Indonesia boasts a free press; unlike Thailand or the Philippines, its elites have no trouble accepting the electoral verdict of the masses. With investor confidence gradually returning to levels last seen before the 1998 Asian financial crisis brought the country to its knees, a larger role on the world stage appeared all but assured.

The twin bombings, which killed seven people, six of them Westerners, do not wipe out all these achievements. But they do raise questions about Mr. Yudhoyono's purely law-and-order focused approach to the threat of Islamism, the ideology that demands that all aspects of 21st century life be subordinated to the medieval precepts enshrined in Shariah. So far the president has chosen to walk a fine line, acting firmly against terrorists while ignoring the broader threat to Indonesia's culture of pluralism, incipient democracy and economic recovery from a small but increasingly assertive Islamist movement.

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However, as the hotel bombings underscore, the attempt to draw a stark distinction between the tactic of terrorism and the enabling ideology of Islamism is ultimately unsustainable. Indonesia's most wanted man, Noordin Mohammad Top, a Malaysian accountant who calls his Jemaah Islamiyah offshoot "al Qaeda for the Malay Archipelago," is merely a symptom of the problem, not the problem itself.

For Indonesia to prevail in the wider war of ideas, it must broaden its focus from terrorist operatives to the culture of intolerance from which they emerge. Over the past decade, a witches' brew of jihadist boarding schools, obscurantist clerics, hate-driven magazines and publishing houses, powerful Islamist parties and thuggish vigilante groups have worked in concert to batter Indonesia's deeply rooted traditions of pluralism and respect for women and religious minorities. Unless Mr. Yudhoyono can reverse the recent inroads made by Islamism, he risks repeating the mistakes of Egypt's Anwar Sadat and Pakistan's Zulfikar Ali Bhutto—leaders who, while not Islamists themselves, presided over broad social and political gains by the movement that have subsequently proven nearly impossible to undo.

THE CENTRAL PARADOX of the 11 years that have passed since the downfall of Gen. Suharto is that the deepening of democracy has gone hand-in-hand with a darkening intolerance. To be sure, the vast majority of Indonesians remain moderate; indeed, the country's fabled live-and-let-live spirit stretches from the most rarefied hotel penthouse to the meanest shanty. Moreover, true to the cliché, Indonesia is strikingly different from most Muslim-majority lands. Unlike Pakistan and Afghanistan, it has not attempted to cleanse itself of religious minorities. Unlike Malaysia and Saudi Arabia, it has not constructed an elaborate structure of insti-

tutionalized discrimination against non-Muslims. Apart from a relatively brief phase between 1999 and 2004, Indonesia has largely avoided the sectarian violence that marks Nigeria and Sudan.

Nonetheless, when benchmarked against Indonesia's own past, the present begins to look less benign. To put it simply, the country is markedly less tolerant of both heterodox belief and religious diversity than it was a generation ago. For more than 30 years, Indonesian Islamists of all stripes—from the Salafist missionaries of the Hidayatullah network headquartered in Borneo, to campus activists affiliated with what would later become the Prosperous Justice Party (PKS), to the strident cadres of the international group Hizbut Tahrir—have steadily undermined the country's nonsectarian founding ideology of Pancasila, which grants equal rights to followers of all six of the country's recognized faiths: Islam, Christianity (Protestant and Catholic), Hinduism, Buddhism and (since 2006) Confucianism.

In recent years, the Islamist vision of the ideal society has become starkly apparent in Indonesia. Members of the Ahmadiyya Muslim community, who make up less than 0.25% of the country's population, have found their homes, mosques and community centers attacked by mobs enraged by the Ahmadiyya belief that their sect's founder, Mirza Ghulam Ahmad (1835-1908), received divine revelations from God. (According to orthodox Islamic belief, such transmissions ended with Mohammed, the so-called "seal of the prophets.")

Reports of mobs intimidating worshippers in "illegal" house churches have become commonplace; out of safety concerns, many Christians conduct services in shopping malls. Last year, a rally in support of Pancasila was attacked by bamboo stave-wielding thugs from the vigilante group, Islamic Defenders Front. Despite injuring

scores of people, some of them seriously, the men behind the attack received slap-on-the-wrist sentences.

More broadly, rapid urbanization, mandatory religion classes in school and the efforts of Middle Eastern and homegrown purifiers of the faith have turned millions of Indonesians away from the easygoing indigenous folk Islam of their forefathers and toward an arid Middle Eastern orthodoxy. Superficial signs are everywhere: headscarves on college campuses, prayer calluses on the foreheads of the devout, buildings equipped with the obligatory prayer room, and a surge in Islamic banking. Much of this religious ferment is benign, but separating the personal from the political can be tricky. For in-

stance, many women view the headscarf as merely a symbol of piety; for others, it is the flag of a political movement. And though orthodox piety and Islamism are not quite synonymous—Muslim clerics such as the former President Abdurrahman Wahid and Harvard-trained Ulil Abshar-Abdalla are among the staunchest defenders of Pancasila—a turn toward orthodoxy tends to make societies more receptive to Islamism’s alluringly simple call.

As elsewhere, conservative Muslim clerics exacerbate the problem. According to a survey last year by the Malindo Institute, a research group focused on Islam, nearly nine in 10 *pesantren* (Islamic boarding school) leaders in Java believe that Muslims ought to reject requests to build churches in their neighborhoods; eight in 10 disapprove of the greeting “Merry Christmas”; three out of four profess support for such traditional Islamic punishments as public flogging and stoning to death for adultery. The attacks on the Ahmadiyya were egged on by the state-spon-

sored Indonesian Ulema Council, a loose grouping of powerful clerics that issued a fatwa condemning the sect as “heretical.” The Council has issued similar edicts against secularism, pluralism and liberalism, interfaith marriage and, most recently, yoga.

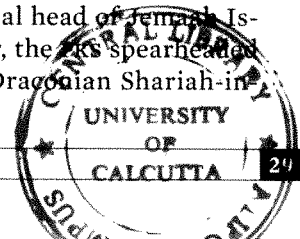
Not surprisingly, a rise in anti-Western sentiment has accompanied this turn toward a more strident faith. A recent poll by Worldpublicopinion.org at the University of Maryland shows that nearly 40% of In-

donesians say that the U.S. plays a mostly negative role in the world. Just a decade ago, Indonesian sentiment was overwhelmingly pro-American. According to another poll by the same organization, about one in five Indo-

nesians either approves of or has mixed feelings about attacks on U.S. civilians in Islamic lands, twice the number who felt that way just two years ago.

In politics, the most dramatic reflection of these changes has been the rise of the fundamentalist Muslim Brotherhood-inspired PKS. In the 11 short years since its founding, it has gone from a fringe group to the fourth-largest party in parliament and an important member of the president’s ruling coalition. In Indonesia’s decentralized polity, the PKS controls several important governorships, including those of the populous provinces of West Java and North Sumatra. Despite the strenuous efforts of its often Western-educated spokesmen, the party has repeatedly belied its carefully cultivated mask of moderation. For a long time, party leaders were among the most strident supporters of the militant cleric Abu Bakar Bashir, the alleged spiritual head of *Jemaah Islamiyah*. Last year, the PKS spearheaded the passage of a Draconian Shariah-in-

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spired “antipornography” bill that curtails women’s rights and criminalizes aspects of non-Muslim cultures.

Against this backdrop, Mr. Yudhoyono has his work cut out for him. In the short term, he must not only thwart further attacks, but also drain the swamp of jihadist boarding schools. In the long term, however, any gains made against terrorism will prove chimerical unless Indonesia can prove to the international community, including foreign investors, that it has the will to roll back recent Islamist gains. This requires using the bully pulpit of the presidency and Mr. Yudhoyono’s own considerable popularity to defend the principles of individual rights, women’s rights and freedom of conscience at the heart of liberal democracy. When Shariah orthodoxy collides with modern conceptions of human rights, it is the former that must give way.

In concrete terms, the president needs to reconsider the shameful *de facto* ban on the tiny, beleaguered Ahmadiyya Muslim community. He must also strive toward rolling back scores of Shariah-inspired local bylaws that violate fundamental rights guaranteed by the constitution by mandating dress codes for women, requiring knowledge of the Koran to obtain a marriage license and allowing women to be arrested as prostitutes for being outside after dark without a male family member.

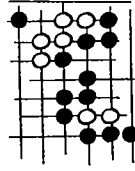
Over time the country must move to end holdovers of the authoritarian past, including the requirement to list religious affiliation on national identity cards and restrictions on interfaith marriages. Nor should it shy away from asking awkward but necessary questions about obstacles placed in the way of construction of churches, the continued existence of thuggish vigilante groups and the creation of a climate of intolerance by publications that make no distinction between free speech and hate speech, including the fundamentalist magazines *Sabili* and *Su-*

ara Hidayatullah, the jihadist Web site *Arrahmah.com* and publishing houses such as the *Aqwam Group* and *al Alaq*. Against a backdrop of rising piety, the retrograde views held by many Muslim clerics also require impartial scrutiny. As in the West, Islam needs to be discussed dispassionately without any special regard for religious sentiment.

Needless to say, switching from a strategy of passive acquiescence to active opposition toward Islamism will not be easy. Any serious move against the Islamist movement, no matter how carefully managed, will inevitably be met by howls of protest from Islamist politicians and intellectuals, reactionary clerics and their easily swayed followers. The threat, implicit or explicit, that they will resort to violence will always be on the table.

Nonetheless, the strengths that made Indonesia an unlikely home to Islamism to begin with continue to provide a glimmer of hope that here, as almost nowhere else in the Muslim world, the movement can be diminished rather than merely slowed. For the most part, Indonesia’s elites remain naturally and unselfconsciously secular and, unlike their counterparts in Iran or Pakistan, have not been banished behind high bungalow walls. Anti-Islamists can also draw on the support of a largely non-sectarian military, anti-Islamist clerics, a wealthy Chinese-Indonesian business community and the nearby examples of Australia and Singapore—successful multiethnic societies built on meritocracy and equality before the law.

As Mr. Yudhoyono embarks on his second term, the stakes could not be higher. If he succeeds in defeating terrorism and diminishing Islamism, he will go down in history as a visionary statesman. If he fails, he will be seen as the man who squandered an opportunity to lead his people toward a future of stability, prosperity and genuine democracy. ■



India's Growing China Angst

by *Brahma Chellaney*



A

T A TIME when the global power structure is qualitatively being transformed, the economic rise of China and India draws ever more attention. But the world has taken little notice of the rising border tensions and sharpening geopolitical rivalry between the two giants that represent competing political and social models of development.

China and India have had little political experience historically in dealing with each other. After all, China became India's neighbor not owing to geography but guns—by forcibly occupying buffer Tibet in 1950. As new neighbors, India and China have been on a learning curve. Their 32-day war in 1962 did not settle matters because China's dramatic triumph only sowed the seeds of greater rivalry.

In recent months, hopes of a politically negotiated settlement of the lingering territorial disputes have dissipated amid muscle flexing along the long, 4,057-kilometer Himalayan frontier. A clear indication that the 28-year-old border talks now are deadlocked came when the most recent round in August turned into a sweeping strategic

dialogue on regional and international issues. The escalation in border tensions, though, has prompted an agreement to set up a direct hotline between the two prime ministers. A hotline, however welcome, may not be enough to defuse a situation marked by rising military incursions and other border-related incidents as well as by new force deployments.

A perceptible hardening of China's stance toward India is at the root of the bilateral tensions. This hardening became apparent almost three years ago when the Chinese ambassador to India publicly raked up the issue of Arunachal Pradesh, the northeastern Indian state that Beijing calls "Southern Tibet" and claims as its own. For his undiplomatic act on the eve of President Hu Jintao's New Delhi visit, the ambassador actually received Beijing's public support. Since then, the Indian army has seen Chinese military incursions increase in frequency across the post-1962 line of control. According to Indian defense officials,

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there were 270 line-of-control violations by the People's Liberation Army and 2,285 instances of "aggressive border patrolling" last year alone. Other border incidents are also reported, such as the PLA demolition of some unmanned Indian forward posts at the Tibet-Bhutan-Sikkim trijunction and Chinese attempts to encroach on Indian-held land in Ladakh.

As a result, the India-China frontier has become "hotter" than the India-Pakistan border, but without rival troops trading fire. Indeed, Sino-Indian border tensions now are at their worst since 1986-87, when local military skirmishes broke out after PLA troops moved south of a rivulet marking the line of control in the Sumdorong Chu sector in Arunachal Pradesh. Those skirmishes brought war clouds over the horizon before the two countries moved quickly to defuse the crisis. Today, PLA forays into Indian-held territory are occurring even in the only area where Beijing does not dispute the frontier—Sikkim's 206-kilometer border with Tibet. Chinese troops repeatedly have attempted to gain control of Sikkim's evocatively named Finger Area, a tiny but key strategic location.

In response, India has been beefing up its defensive deployments in Arunachal Pradesh, Sikkim and Ladakh. Besides bringing in tanks to reinforce its defenses in mountainous Sikkim, it is deploying two additional army mountain divisions and two squadrons of the advanced Sukhoi-30 MIKI bomber aircraft in its northeastern state of Assam, backed by three airborne warning and control systems. To improve its logistical capabilities, it has launched a crash program involving new roads, airstrips and advanced landing stations along the Himalayas. None of these steps, however, can materially alter the fact that China holds the military advantage on the ground. Its forces control the heights along the frontier, with the Indian troops perched largely on the lower levels. Furthermore, by build-

ing modern railroads, airports and highways in Tibet, China is now in a position to rapidly move large additional forces to the border to potentially strike at India at a time of Beijing's choosing.

Diplomatically, China is content, long having occupied land at will—principally, the Aksai Chin plateau, which is almost the size of Switzerland. Aksai Chin, an integral part of Kashmir long before Xinjiang became a province of China under Manchu rule, provides the only accessible Tibet-Xinjiang route through the Karakoram passes of the Kunlun Mountains. Yet Beijing chooses to press claims on additional Indian territories as part of a grand strategy to keep India under military and diplomatic pressure.

Since ancient times, the Himalayas have been regarded as the northern frontiers of India. But having annexed Tibet, China has laid claim to areas far to the south of this Himalayan watershed, as underscored by its claim to Arunachal Pradesh—a state nearly three times the size of Taiwan. That Tibet remains at the core of the India-China divide is being underlined by Beijing itself as its claim to additional Indian territories is based on alleged Tibetan ecclesial or tutelary links to them, not any professed Han connection. Such attempts at incremental annexation actually draw encouragement from India's self-injurious acceptance of Tibet as part of the People's Republic of China.

At the center of the Chinese strategy is an overt refusal to accept the territorial status quo. In not hiding its intent to further redraw the frontiers, Beijing only highlights the futility of political negotiations. After all, the status quo can be changed not through political talks but by further military conquest. Yet, paradoxically, the political process remains important for Beijing to provide the façade of engagement while trying to change the realities on the ground. Keeping India en-

gaged in endless, fruitless border talks while stepping up direct and surrogate pressure also chimes with China's projection of its "peaceful rise."

But as border tensions have escalated, vituperative attacks on India in the Chinese media have mounted. The Communist Party's mouthpiece, the People's Daily, taunted India in a June editorial for lagging behind China in all indices of power and asked it to consider "the consequences of a potential confrontation with China." Criticizing the Indian moves to strengthen defenses, it peremptorily declared: "China won't make any compromises in its border disputes with India."

The most provocative Chinese essay, however, appeared on China International Strategy Net, a quasiofficial Web site that enjoys the Communist Party's backing and is run by an individual who made his name by hacking into United States' government Web sites in retaliation to the 1999 American bombing of the Chinese Embassy in Belgrade. Posted on August 8, the essay called for a Chinese strategy to dismember multiethnic India into 20 or 30 fragments. This is an old, failed project China launched in the Mao years when it trained and armed Naga, Mizo and other guerrillas in India's restive northeast.

The strains in Sino-Indian relations have also resulted from sharpening geopolitical rivalry. This was evident from China's botched 2008 effort to stymie the U.S.-India nuclear deal by blocking the Nuclear Suppliers Group from opening civilian nuclear trade with New Delhi. In the NSG, China landed itself in a position it avoids in any international body—as the last holdout. Recently, there has been an outcry in India over attempts to under-

mine the Indian brand through exports from China of fake pharmaceutical products labeled "Made in India."

The unsettled border, however, remains at the core of the bilateral tensions. Indeed, 47 years later, the wounds of the 1962 war have been kept open by China's aggressive claims to additional Indian territories. Even as China has emerged as India's largest trading partner, the Sino-Indian strategic dissonance and border disputes have become more pronounced.

New Delhi has sought to retaliate against Beijing's growing antagonism by banning Chinese toys and cell phones that do not meet international standards. But modest trade actions can do little to persuade

Beijing to abandon moves to strategically encircle and squeeze India by employing China's rising clout in Pakistan, Burma, Bangladesh, Sri Lanka and Nepal.

In fact, the question that needs to be asked is whether New Delhi helped create the context to embolden Beijing to be assertive and bellicose. For long, New Delhi has indulged in ritualized happy talk about the state of its relationship with Beijing, brushing under the rug both long-standing and new problems and hyping the outcome of any bilateral summit meeting. New Delhi now is staring at the harvest of a mismanagement of relations with China over the past two decades by successive governments that chose propitiation over leverage building. New Delhi is so slow to correct its course that mistakes get compounded. For example: India will observe 2010—the 60th anniversary of China becoming India's neighbor by taking over Tibet—as the "Year of Friendship with China."

Yet another question relates to China's intention. In muscling up to India, is China

A provocative Chinese editorial published last month called for Beijing to dismember India into 30 parts.

seeking to intimidate India or actually fashioning an option to wage war on India? In other words, are China's present-day autocrats itching to see a repeat of 1962? The present situation, in several key aspects, is no different from the one that prevailed in the run-up to the 1962 invasion of India, which then Chinese Premier Zhou Enlai declared was designed "to teach India a lesson." Consider the numerous parallels:

First, like in the pre-1962 war period, it has become commonplace internationally to speak of India and China in the same breath. The aim of "Mao's India war," as Harvard scholar Roderick MacFarquhar has called it, was largely political: To cut India to size by demolishing what it represented—a democratic alternative to the Chinese autocracy. The swiftness and force with which Mao Zedong defeated India helped discredit the Indian model, boost China's international image and consolidate Mao's internal power. The return of the China-India pairing decades later is something Beijing viscerally detests.

The Dalai Lama's flight to India in 1959—and the ready sanctuary he got there—paved the way for the Chinese military attack. Today, 50 years after his escape, the exiled Tibetan leader stands as a bigger challenge than ever for China, as underscored by Beijing's stepped-up vilification campaign against him and its admission that it is now locked in a "life and death struggle" over Tibet. With Beijing now treating the Dalai Lama as its Enemy No. 1, India has come under greater Chinese pressure to curb his activities and those of his government-in-exile. The continuing security clampdown in Tibet since the March 2008 Tibetan uprising parallels the Chinese crackdown in Tibet during 1959-62.

In addition, the present pattern of crossfrontier incursions and other border incidents, as well as new force deployments and mutual recriminations, is redolent of the situation that prevailed before

the 1962 war. When the PLA marched hundreds of miles south to occupy the then-independent Tibet and later nibble at Indian territories, this supposedly was neither an expansionist strategy nor a forward policy. But when the ill-equipped and short-staffed Indian army belatedly sought to set up posts along India's unmanned Himalayan frontier to try and stop further Chinese encroachments, Beijing and its friends dubbed it a provocative "forward policy." In the same vein, the present Indian efforts to beef up defenses in the face of growing PLA crossborder forays are being labeled a "new forward policy" by Beijing.

Moreover, the 1962 war occurred against the backdrop of China instigating and arming insurgents in India's northeast. Though such activities ceased after Mao's 1976 death, China seems to be coming full circle today, with Chinese-made arms increasingly flowing into guerrilla ranks in northeastern India, including via Burmese front organizations. While a continuing 12-year-old ceasefire has brought peace to Nagaland, some other Indian states such as Assam and Manipur are racked by multiple insurgencies, allowing Beijing to fish in troubled waters.

Finally, just as India had retreated to a defensive position in the border negotiations with Beijing in the early 1960s after having undermined its leverage through a formal acceptance of the "Tibet region of China," New Delhi similarly has been left in the unenviable position today of having to fend off Chinese territorial demands. Whatever leverage India still had on the Tibet issue was surrendered in 2003 when it shifted its position from Tibet being an "autonomous" region within China to it being "part of the territory of the People's Republic of China." Little surprise that the spotlight now is on China's Tibet-linked claim to Arunachal Pradesh than on Tibet itself.

This is why Beijing has invested so much

political capital in getting India to gradually accept Tibet as part of China. Its success on that score has helped narrow the dispute. That neatly meshes with China's long-standing negotiating stance: What it occupies is Chinese territory, and what it claims must be shared—or as it puts it in reasonably sounding terms, through a settlement based on “mutual accommodation and mutual understanding.” So, while publicly laying claim to the whole of Arunachal Pradesh, China in private is asking India to cede at least that state's strategic Tawang Valley—a critical corridor between Lhasa and Assam of immense military import because it overlooks the chicken-neck that connects India's northeast with the rest of the country.

With China's claim to Tibet being historically dubious, its claims to Indian territories are doubly suspect.

In fact, with the Dalai Lama having publicly repudiated Chinese claims that Arunachal Pradesh, or even Tawang, was part of Tibet, a discomfited Beijing sought to impress upon his representatives in the now-suspended dialogue process that for any larger political deal to emerge, the Tibetan government-in-exile must support China's position that Arunachal has been part of traditional Tibet. The plain fact is that with China's own claim to Tibet being historically dubious, its claims to Indian territories are doubly suspect.

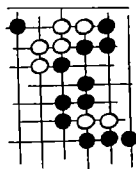
Today, as India gets sucked into a pre-1962-style trap, history is in danger of repeating itself. The issue then was Aksai Chin; the issue now is Arunachal. But India is still reluctant to shine a spotlight on Tibet as the lingering core issue. Even though Tibet has ceased to be the political buffer between India and China, it needs to become the political bridge between the world's two most-populous countries. For that to happen, Beijing has to begin a process of reconciliation and healing in Tibet.

Internationally, there are several factors contributing to China's greater assertiveness toward India as part of an apparent strategy to prevent the rise of a peer rival in Asia. First, India's growing strategic ties with the U.S. are more than offset by America's own rising interdependence with China, to the extent that U.S. policy now gives Beijing a pass on its human-rights abuses, frenetic military buildup at home and reckless strategic opportunism abroad. America's Asia policy

is no longer guided by an overarching geopolitical framework as it had been under President George W. Bush, a fact reflected by the Obama administration's silence on the China-India border tensions.

In addition, the significant improvement in China's own relations with Taiwan and Japan since last year has given Beijing more space against India. A third factor is the weakening of China's Pakistan card against India. Pakistan's descent into chaos has robbed China of its premier surrogate instrument against India, necessitating the exercise of direct pressure.

Against this background, India can expect no respite from Chinese pressure. Whether Beijing actually sets out to teach India “the final lesson” by launching a 1962-style surprise war will depend on several calculations, including India's defense preparedness to repel such an attack, domestic factors within China and the availability of a propitious international timing of the type the Cuban missile crisis provided 47 years ago. But if India is not to be caught napping again, it has to inject greater realism into its China policy by shedding self-deluding shibboleths, shoring up its deterrent capabilities and putting premium on leveraged diplomacy. ■



China Tightens the Screws on India

by Harsh V. Pant



PREDICTING WHEN THE Chinese will attack India has become the favorite past time of Indian strategists. Recently, it was suggested that China will attack India by 2012 primarily to divert attention from its growing domestic troubles. Though this suggestion received wide press coverage, the Indian media was more interested in sensationalizing the issue than investigating the claims with the seriousness they deserved. Meanwhile, the official Chinese media picked up the story and gave it another spin. It argued that while a Chinese attack on India is highly unlikely, a conflict between the two neighbors could result from an escalation of the aggressive Indian policy toward the present border dispute with China. Unsurprisingly, the Chinese media went on to speculate that the “China will attack India” line might just be a pretext for India’s deployment of more troops in the border areas.

This exchange reflects an undercurrent of uneasiness that exists between the two Asian giants as they continue their ascent up the global hierarchy. Even as the two

countries sign seemingly important documents year after year, the distrust between them is actually growing at an alarming rate. Economic cooperation and bilateral political and socio-cultural exchanges may be at an all time high and China today may be India’s largest trading partner, but this has done little to assuage their concerns regarding each other’s intentions. The two sides are locked in a classic security dilemma where any action taken by one is immediately interpreted by the other as a threat to its own interests.

At the global level, the rhetoric is all about cooperation. Indeed, the two sides have worked together on climate change, global trade negotiations and in demanding a restructuring of global financial institutions in view of the global economy’s shifting center of gravity. At the bilateral level, however, the story is markedly different. This was evident when China took its territorial dispute with India to the Asian Development Bank, where it blocked a loan

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application by India for development projects in the Indian state of Arunachal Pradesh, a state that China continues to claim as part of its own territory. Buoyed by the perception that the Obama administration plans to make its ties with China the centerpiece of its foreign policy in light of growing economic dependence by the United States on China, China has displayed an aggressive stance on India. The suggestion by the Chinese to the U.S. Pacific Fleet Commander that the Indian Ocean should be recognized as a Chinese sphere of influence has raised hackles in New Delhi. China's lack of support for the U.S.-India civilian nuclear energy cooperation pact, which it tried to block at the Nuclear Suppliers Group, and its obstructionist stance in bringing the terror masterminds of last November's attacks in Mumbai to justice has further strained ties.

Sino-India frictions are growing and the potential for conflict remains high. Concern in India is increasing over China's frequent and strident territorial claims along the Line of Actual Control in Arunachal Pradesh and Sikkim. The Indians have complained that there has been a dramatic increase in the number of Chinese intrusions into Indian territory over the last two years, most of them along the border in regions of Arunachal Pradesh that China refers to as "Southern Tibet." For its part, China has upped the ante on the border issue. It protested against the Indian prime minister's visit to Arunachal Pradesh last year, asserting its claims over the territory, and, in a move that has caught most observers of Sino-India ties by surprise, has vehemently contested every single recent Indian administrative and political action in the state, even denying Chinese visas to Indian citizens of Arunachal Pradesh. The Indian foreign minister recently went on record to say that the Chinese army "sometimes" intrudes on Indian territory, though he add-

ed that the issues were being addressed through established mechanisms. The most recent negotiations have been a disappointing failure, with a growing perception in India that China is less than willing to adhere to earlier political understandings on how to address the boundary dispute. A sign that even the broader rhetoric has degenerated considerably was the claim in a recent article by a Chinese analyst connected to China's Ministry of National Defense that China could "dismember the so-called 'Indian Union' with one little move" into as many as 30 states.

India's challenge remains formidable. While, it has not yet achieved the economic and political profile that China enjoys regionally and globally, it is increasingly bracketed with China as a rising power, an emerging power, even a global superpower. India's main security concern now is not the increasingly decrepit state of Pakistan but the ever more assertive and strategically capable China. The defeat at the hands of the Chinese in 1962 has psychologically scarred the elite perceptions of China and these are unlikely to change in the near future. China is viewed by India as a growing, aggressive, nationalistic power whose ambitions are likely to reshape the contours of the regional and global power landscape with deleterious consequences for Indian interests. Indian policy makers, however, continue to believe that Beijing is not a short-term threat to India. This belief persists even as defense officials have increased warnings about the disparities between the two countries. The Indian naval chief recently warned that India has neither "the capability nor the intention to match China force for force" in military terms. The former Indian air chief suggested that China is more of a threat to India than Pakistan.

It may well be that the recent hardening of China's position toward India is a function of its own sense of internal vulnerabil-

ities but that is hardly a consolation to Indian policy makers who have to respond to a public that increasingly wants its nation to assert itself in the region and beyond. India is rather belatedly gearing up to respond with its own diplomatic and military overtures, thereby setting the stage for further Sino-India strategic rivalry.

The rise of China and an active U.S. attempt to build India into a major balancer in Asia has led to the evolution of India's ties with other countries in the region, such as Japan. Both India and Japan are well aware of China's not-so-subtle attempts at preventing their rise, something clearly reflected by China's opposition to expanding the United Nations Security Council to include India and Japan as permanent members. China's status as a permanent member of the Security Council and as a recognized nuclear-weapon state is something that it would be loathe to share with any other state in Asia. India's "Look East" policy of active engagement with the Association of Southeast Asian Nations, or Asean, and East Asia remains largely predicated upon Japanese support. India's participation in the East Asia Summit was facilitated by Japan and the East Asia Community proposed by Japan to counter China's proposal of an East Asia Free Trade Area also includes India. While China has resisted the inclusion of India, Australia, and New Zealand in Asean, Japan has strongly backed the entry of all three nations.

Recent convergence in the strategic priorities of India, the U.S. and Japan notwithstanding, it is unlikely that India would openly become a part of the American-led alliance framework against China. Like most states in the Asia-Pacific, India would not want to antagonize China by

ganging up against it. This is despite the fact that India is the country that will be, as it already has been, most affected by a rising China. China's friendship with Pakistan, its attempts to increase its influence in Nepal, Bangladesh and Burma, its refusal to recognize parts of India such as Arunachal Pradesh, its lack of support for India's membership to the UNSC and other regional and global organizations, and its unwillingness to support the U.S.-India nuclear pact all point toward China's attempts at preventing the rise of India.

China has always viewed India as a regional player and has tried to confine India to the peripheries of global politics. Today, India's rise and the success of its develop-

*A rising China
will find it difficult
to tolerate a rising
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competitor.*

ment model pose a challenge to China in more ways than one. And as the story of India's success is being celebrated across the world, especially in the West, it is no surprise that China has become edgier in its relationship with India. It was only after the U.S. started courting India that Chinese rhetoric towards its neighbor underwent a modification. Realizing that a close U.S.-India partnership would change the regional balance of power to its disadvantage, China has started tightening the screws on India. It has further entrenched itself in India's neighborhood even as Sino-India competition for global energy resources has gained momentum. The development of infrastructure by China in its border regions with India has been rapid and effective while the Indian has been historically lackadaisical. One example of this is that even 60 years after independence, the border state of Arunachal Pradesh remains unconnected by rail to the Indian mainland.

Things are changing slowly with India

making some effort to catch up with China by improving infrastructure on its side of the border. It has deployed two additional army divisions, heavy tanks and ramped up its air power in the region that is a bone of contention between India and China. Tensions are inherent in such an evolving strategic relationship, as was underlined in an incident earlier this year when an Indian Kilo class submarine and Chinese warships reportedly engaged in rounds of maneuvering on their way to the Gulf of Aden to patrol the pirate infested waters, as both countries tried to test for weaknesses in each other's sonar system. The Chinese media reported that its warships forced the Indian submarine to the surface, a report that was strongly denied by the Indian Navy. Unless managed carefully, the potential for such incidents to turn serious in the future remains high.

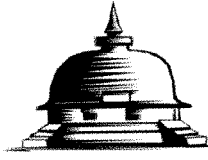
Both China and India are rising at the same time in an Asia-Pacific strategic landscape that is in flux. What is causing concern in Asia and beyond is the opacity that seems to surround China's military buildup, with an emerging consensus that Beijing's real military spending is at least twice the announced figure. The official figures from the Chinese government do not include the cost of new weapon purchases, research or other prominent items for China's highly secretive military. All over Asia, there is a growing call for China to be more open about its military intentions and capabilities. While China's near-term focus remains on preparations for potential problems in the Taiwan Strait, its nuclear-force modernization, growing arsenal of advanced missiles and development of space and cyberspace technologies are rapidly changing the Asian military balance.

A rising China will find it difficult to tolerate a rising India as a potential competitor. Even though India is a long way from challenging Chinese regional predominance, it is unlikely that China will leave

anything to chance. China seems likely to continue trying to contain India, a reality that India should be wary of and try to guard against. China's intentions regarding India may seem entirely peaceful at the moment but that is largely irrelevant in the strategic scheme of things. A troubled history coupled with the structural uncertainties engendered by their simultaneous rise is propelling the two Asian giants into a trajectory that they might find rather difficult to navigate in the coming years.

The elite consensus in India remains one of not allowing China a free hand in shaping the region's strategic environment. The problem, however, is that India has no real bargaining leverage. Domestic political constraints and lack of any incentive on the part of China has allowed the border problem to fester for far too long. India seems to have lost the battle over Tibet to China, despite the fact that Tibet constitutes China's only truly fundamental vulnerability vis-à-vis India. India has failed to limit China's military use of Tibet despite its great implications for Indian security, with the result that Tibet has become a platform for the projection of Chinese military power. India has also found it difficult to condemn Chinese physical assaults on Tibetans and verbal attacks on the Dalai Lama.

To strengthen its bargaining position with China, India will have to gain some sort of leverage over its neighbor, something it could possibly achieve by cultivating states along China's periphery. Indian policy toward China continues to be viewed largely through the prism of economic growth, with the assumption that the only way to match up to the challenge posed by Beijing is to grow at 7% to 8% over the next decade or so. Yet India will have to work proactively to achieve greater strategic balance in the region over the next few years if it wants to preserve and enhance its own interests. As of now, Indian policy makers have not found a way of doing this. ■



Colombo's Rough Justice for Tamils

by Angilee Shah

PEOPLE MILL ABOUT an office complex in Colombo, waiting for appointments with lawyers who are crammed into small cubicles. In one corner office, mothers and grandparents, wives and siblings, stream in one by one. Sometimes they have long, convoluted stories; sometimes their stories are very simple. One woman says her son was detained in a police search and cordon operation. Another traveled from London in search of her brother whom she believes is in police custody. One man says his cousin was arrested while buying a SIM card for his cell phone. There is, however, a common thread: They are all Tamils with family members who have been detained without charge.

In May, Sri Lankan government forces defeated the Liberation Tigers of Tamil Eelam, or LTTE, ending a violent 26-year civil war that left deep rifts between the majority Sinhalese and minority Tamil people of Sri Lanka. In this postwar context, those detained under the auspices of national security are unlikely to have their day in court.

On one hand, Sri Lanka's constitution guarantees due process and personal rights. On the other, it gives the government broad powers to maintain security as it sees fit. Many countries with serious security concerns curb personal freedoms, but in Sri Lanka the effects are staggering.

Amnesty International said in its 2009 annual report that last year more than 1,000 Tamils were held without charges, some for several years at a time. Now that the war has officially ended, that number has increased dramatically. The government has not released the population of detention centers, and attempts to contact officials were unsuccessful, but it's estimated that more than 10,000 people considered ex-LTTE cadres are being rehabilitated. According to statistics released in July, more than 250,000 internally displaced people are being processed in closed camps. While not technically prisoners or detainees, the IDPs do not have freedom of movement or ready access to legal counsel.

Just before his retirement in June, Sri

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Lanka's former Chief Justice Sarath N. Silva made unambiguous remarks about the state of the judiciary in Sri Lanka. At an event marking the opening of a new courthouse, he said that the IDPs are being held in deplorable conditions and predicted their claims would not be heard in Sri Lankan courts. "They cannot expect justice from the law of the country," Mr. Silva said.

The new Supreme Court Chief Justice Asoka de Silva, then, has a weighty task on his shoulders. He is taking the helm of an institution marked by the public's waning confidence in the rule of law in relation to human rights. "Where the bench is concerned, it is my view that it forms the backbone of any civilized society," he said. "If at any time, the bench is compromised, society begins to deteriorate from within and will end in anarchy."

Those looking for justice in the courts are hoping that Supreme Court Chief Justice de Silva and the country's leaders will be dedicated to that cause. In the absence of such reform, the legacy of Sri Lanka's long war will be difficult to overcome.

IF THE PEOPLE waiting patiently in Colombo lawyers' offices are to have any chance at proper representation, they have to act quickly. In June, a report by the International Crisis Group noted that the kinds of claims they have, namely fundamental rights cases which challenge the country's executive, must be filed to the Supreme Court in Colombo within one month of the date of the violation. But even if someone has the means and freedom to get to Colombo, finding a lawyer is difficult. Members of the legal profession in Sri Lanka have been threat-

ened because of their attempts to address grievances related to the government's security measures. In September, attackers threw grenades into the home of J.C. Weliamuna, a prominent attorney and executive director of Transparency International Sri Lanka. Though no one was injured—one of the grenades failed to explode—the attack helped send many lawyers, particularly those addressing human-rights issues, underground or into exile.

Lawyers who do continue to take on sensitive cases often try to avoid threats and attacks by staying under the radar, but the Ministry of Defense Web site has "outed" several lawyers for their human-rights related work and defense of terrorism suspects. In a December article titled, "Who are the Human Rights Violators?" the Ministry outlined eight cases against LTTE sus-

pects, naming their attorneys in each instance. Defense Secretary Gotabaya Rajapaksa, the brother of President Mahinda Rajapaksa, is charging editors of the newspaper, *The Sunday Leader*, with contempt of court. An unsigned article which appeared on the Defense Ministry's Web site in July named five attorneys representing the newspaper, and showed photographs of three of them. The article, called "Traitors in Black Coats Flocked Together?" said that "this team of lawyers share [*sic*] a common antipatriotic sentiment," and that observers in court called them "traitors of the nation."

Attorneys in Colombo worry that this kind of propaganda drums up a violent form of patriotism that silences political debate in the country. They also worry about their safety; the *Leader's* former editor, investigative journalist Lasantha Wickrematunge,



Gotabaya Rajapaksa

was murdered by gunmen on his way to work in January. His killers, as well as those who have threatened or attacked lawyers, have yet to be found.

The Defense Ministry took down the article about the Sunday Leader attorneys in response to complaints from the Bar Association of Sri Lanka. Gotabaya Rajapaksa then published a letter, saying that lawyers do have the right to represent anyone and that the media, including his ministry's Web site, has the right to comment. "The public will decide on the appropriate classification of patriotism or terrorism or otherwise, if that is material or relevant," he wrote.

The Bar Association's secretary, Udaya Rohan de Silva, says that the Defense Ministry has resolved this issue. But he is still concerned that lawyers are not able to do their jobs, particularly in giving legal aid to IDPs. The Bar Association along with the United Nations Development Programme offered to send lawyers into the camps to help them protect property and rights, but the government has denied this request, promising that lawyers will be given access to displaced people after processing.

But legal aid cannot come soon enough, especially as the monsoon approaches. Several zones of the camps at Manik Farm flooded in mid-August, causing concern over how the facilities will hold up when the rainy season begins in October. Aid agencies have called on the Sri Lankan government to expedite the release of those being held in the crowded camps, but the government has committed to completing resettlement by the end of the year. So far, they say that more than 4,000 people have been sent to their home towns in the east and north.

In postwar Sri Lanka, the chances are extremely slim that an ethnic Tamil will get his day in court.

Even if a detainee or an IDP is heard in court, Basil Fernando, executive director of the Hong Kong-based Asian Human Rights Commission, said fundamental rights petitions are rarely successful for the thousands being held for questioning about connections to the LTTE. The Supreme Court heard two fundamental rights applications in August concerning IDPs seeking family reunification and release. The Court ruled on Aug. 8 that a family of five had the right to be in the same camp but delayed the hearing on their right to be released until November. A second case,

filed in June by the Colombo-based Centre for Policy Alternatives, argued on behalf of all IDPs that they have the right to freedom from arbitrary arrest and detention, freedom of movement and equal protection under the

law. The attorney general filed objections to the legal basis of the complaint, and the hearing was scheduled for Aug. 6 and then further postponed.

In addition to long delays, those cases often go up against broad emergency regulations that give the government immense powers to detain terrorism suspects. At the end of August, the Supreme Court addressed the fundamental rights application of a young Tamil man from the north who has been detained without charge for 17 months. The three-person bench, including Chief Justice de Silva, gave the attorney general and defense secretary four weeks to review their detention policy. Mr. Fernando says that this will not help detainees, however. The Supreme Court could have ruled on the validity of present laws, but instead passed its powers to members of the executive branch.

However, Attorney B.N. Thamboo, who is representing the detainee in this case

and has filed more than 50 such cases, believes that the request is a positive sign. While it is too early to declare any kind of victory, the court asked for a review of the policy concerning all prisoners held without charge, even those unable to file individual fundamental rights cases, he says.

The country has been under emergency rule for the length of the war, with only one five-month gap. Emergency regulations outlined in the 1947 Public Security Ordinance allow the defense secretary to detain suspects for up to one year in the name of national security. In August 2008, the regulations were expanded to allow for an extra six months of detention, without requiring that suspects be produced in court. The Parliament extends emergency rule every month.

Rules that criminalize certain kinds of speech under the Prevention of Terrorism Act, enacted in 1979, were used to sentence journalist J.S. Tissainayagam to 20 years in prison for "causing communal disharmony" and "supporting terrorism." On World Press Freedom Day in May, U.S. President Barack Obama mentioned Mr. Tissainayagam as one of many journalists around the globe "guilty of nothing more than a passion for truth and a tenacious belief that a free society depends on an informed citizenry."

FOR THE MANY detainees who cannot file a fundamental rights petition, the Human Rights Commission has a mandate to investigate grievances against abuse by the state. But Ruki Fernando, a program coordinator at Colombo-based advocacy group Law and Society Trust, says that the HRC is ineffective because its independence has been compromised. It has denounced the LTTE's abuses and investigated police abuse of Sinhalese Buddhists in the past, but has not made public statements about "blatant abuse" against Tamils. To his knowledge,

there have been no major investigations or public reports about violations of the rights Tamil people by the state.

The 17th Amendment of Sri Lanka's constitution is meant to shield institutions such as the Police Commission and Human Rights Commission from politics. The law calls on the President to make appointments to a Constitutional Council based on nominations by both the ruling and opposition parties. In addition, the law calls on the president to make appointments to a Constitutional Council based on nominations by both the ruling and opposition parties. Like his predecessor, president Rajapaksa did not make new appointments to the Council even as old appointments ended. He instead left commissions empty or made direct appointments.

President Rajapaksa is shielded in part by the exuberant popular support he has enjoyed since claiming military victory. In addition, there is no legal way to force Mr. Rajapaksa, an attorney himself, to follow the 17th Amendment or end the state of emergency. Under Sri Lankan law, the president has absolute immunity from lawsuits while in office.

"With the end of this conflict, it is the first time the country is without civil war," said Mr. Fernando of the Asian Human Rights Commission. But without reform of the legal system, "there is an impasse—you cannot proceed. I think it's a matter of time until there is demand for serious change."

Until then, many Tamils, like an elderly couple seeking legal advice one day in the cramped Colombo offices, will wait for justice. This couple traveled from Jaffna, on the northern tip of the island, looking for their grandson. They said they have not filed a fundamental rights case on his behalf because they worry that he will be abused in the detention center where he is being held. They do not cry, but they also do not hope. "It's up to God," the grandmother said. "We're old and patient." ■



Faith and Law In China

by Rana Siu Inboden and William Inboden



LI SUBIN, A former deputy director of a law firm shuttered for six months by the Chinese government, says that he takes inspiration from Proverbs 21:3, "To do righteousness and justice is more acceptable to the Lord than sacrifice." Mr. Li, a Christian, is also a human-rights lawyer who has been involved in defending imprisoned HIV/AIDS activist Hu Jia and blind legal activist Chen Guangcheng, among others. Mr. Li's human-rights work has not come without personal sacrifice. He has been denied renewal of his law license and dismissed from his job.

Mr. Li is at the vanguard of a notable new phenomenon in China, lawyers who combine a dedication to human-rights advocacy with their Christian faith. Professor Fenggang Yang, a Purdue University sociologist focusing on religion in China, observes that "among lawyers who fight for marginalized people in China there are a growing number of Christians." While their overall numbers are limited, they appear to be exerting a disproportionate influence and have a growing public profile

and impact. Mr. Zhuang Daohe, another Christian human-rights lawyer, notes that while the number of Christian lawyers engaged in human-rights cases has increased, it is still a very small group. "At most there are probably less than 100" rights lawyers explains Mr. Zhuang.

As the 60th anniversary approaches of the Oct. 1, 1949 founding of the People's Republic of China, many observers are reflecting on the Chinese Communist Party's six decades in power and on the related question of China's future direction. This loose cohort of Christian human-rights lawyers may be playing a strategic role in shaping that future. Messrs. Li and Zhuang represent two recent and now intersecting trends in China: the growth of Christianity among educated, urban Chinese and the emergence of the *weiquan*, or rights defense, movement. Other Christians who are part of the informal *weiquan* movement include lawyers Li Baiguang, Zheng Enchong, Li Jinsong, Gao Zhisheng, Li Heping, and public intellectuals Fan Yafeng and Yu Jie.

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The number of Christians in China is growing at a rate of several million annually and is already becoming a trend of potential geopolitical importance. The exact figures are impossible to determine, and even rough estimates vary widely from 40 million to 130 million Protestants, and an additional 10 million to 25 million Catholics. For many years after the Cultural Revolution, the resurgent growth of the Christian church in China was mainly a rural phenomenon. But as Christian writer and political dissident Yu Jie noted in a 2007 speech in Washington, D.C., “in recent years, a large number of the young generation of urban intellectuals have become Christians.” Christians now include business executives, artists, students, professors, lawyers and even Party members (who out of necessity keep their faith secret). Most of these urban converts worship in “house” churches unrecognized by the government and outside the domain of the official Three Self Protestant church.

The *weiquan* movement includes lawyers, activists, intellectuals and ordinary citizens who aim to push the boundaries of reform by using China’s existing laws and courts to defend human rights—and over time perhaps strengthen the rule of law and restrain abuses of power. The movement is not an official membership organization but rather a loose coalition organized around the common cause of rights defense. Nor is it a political campaign that explicitly challenges the CCP’s authority. Rather, the movement seeks to work within the legal system and, in various ways, calls on the government to honor in practice the standards that it has codified on paper. Despite their diminutive numbers, *weiquan* lawyers have already enjoyed a number of successes through highlighting cases of abuse, raising citizens’ awareness of their rights and holding the government to its ostensible commitment to the rule of law.

Yet even while *weiquan* lawyers seek to

work within the system, the government seems to regard the movement as a threat and has continued to place pressure on several NGOs and activists involved in rights defense. The detention of prominent *weiquan* figure Xu Zhiyong, the Beijing Justice Bureau’s decision to disbar 53 lawyers and the crackdown on the Open Constitution Initiative, a nonprofit organization that took on a number of sensitive cases including representing the parents of children who became ill from tainted milk, are severe blows to the cause. As Teng Biao, a leading movement figure commented recently in the *Washington Post*, the Open Constitution Initiative “had been the primary meeting place for China’s nascent movement of ‘rights lawyers.’” Mr. Xu was released last month after being held for several weeks. He continues to face tax evasion charges and possible prosecution.

While it appears that there may be an uptick in the level of repression, these tactics are, unfortunately, not new. For example, in 2003, Zheng Enchong, a Shanghai lawyer and Christian whose *weiquan* work includes representing 100 displaced Shanghai residents, received a three-year prison term for the contrived offense of “revealing state secrets.” Since his release from prison in June 2006, he has continued to face government harassment. In October 2006, the organization Human Rights in China reported that as Mr. Zheng and his wife attempted to leave their home to attend church services, a dozen police officers surrounded them and knocked Mr. Zheng to the ground when he tried to keep walking. According to the International Federation for Human Rights, in February 2008, Mr. Zheng was beaten by police officers and detained and questioned for 12 hours.

Mr. Zheng’s case is not isolated, and a number of other human-rights lawyers have suffered harsh treatment at the hands of the government for their work. The recent disappearance of lawyer Gao Zhisheng

is one of the most troubling examples. Mr. Gao has not been seen or heard from since Feb. 4, 2009, when he was forcibly taken from his home by state security police. Mr. Gao's outspoken activism had long antagonized Chinese officials, including his authoring of a series of open letters urging Chinese leaders to stop the repression of Falun Gong, organizing a relay hunger strike, vigorously defending a number of human-rights cases and speaking candidly and critically about the government to the New York Times. Previously, in 2007, Mr. Gao was held for several weeks and report-

edly tortured by security forces, including severe beatings, starvation, burning his eyes with cigarettes and electric shocks to his genitals. Even in the face of such harsh repression Mr. Teng observes that "what most

impedes our work, though, is the revocation of our licenses to practice law."

Despite the risk of sometimes severe repercussions, these Christian lawyers note that their faith motivates and sustains them. According to Li Subin "God guides his work" to promote equality and justice and defend the oppressed and "we are confident we can get through this because we trust the Lord." Or in Mr. Zhuang's words, "If there is persecution, as believers we should speak out and take action. It is our responsibility." These lawyers have also worked on cases involving other issues and even other faiths, including the Falun Gong. As religious liberty lawyer Angela Wu of The Becket Fund notes, "These human-rights lawyers work on a variety of issues, including ones that have nothing to do with the church, religious freedom or religious people." Mr. Zhuang explained they do this because of their theological convictions about the inherent dignity and equality of

all human beings. In his words, "everyone is equal in front of God." Moreover, we "are advancing the rule of law and democracy by defending individual cases no matter how small a case is. Each case represents the power of our faith."

Despite the Chinese government's harassment and harsh treatment of a number of these activists, they do not appear to hold hostile attitudes toward their rulers. Mr. Zhuang notes that before the Olympics, "a lot of us were praying for Hu Jintao, Wen Jiaobao and the Chinese government" and that "it is normal in Chi-

na for the church to pray for the government—not just us lawyers—but for all believers to be praying for the Chinese government." He also grounds this in what he believes to be a spiritual imperative: "when facing

*The Christians'
stubborn resilience is
a source of great
discomfort for the
Chinese government.*

persecution, instead of resentment and hatred our Christian faith gives us humility." Similarly, Li Subin says that instead of responding to mistreatment with anger, Christianity "makes us more humble and prayerful as we face persecution."

Aside from not expressing malice toward the government, they also remain committed to working within the system and to bolstering the social stability of their deceptively fragile and fractious nation. According to Mr. Li, "Because lots of conflict between officials and citizens has reached the edge of violence, such as in the Yang Jia case... We think that by applying the law, we are helping the Chinese government to resolve these conflicts peacefully." Professor Yang notes that these Christian human-rights lawyers "are unlikely to form or join an opposition political movement ... and will try to work within the existing framework."

Professor Yang suggests that these

lawyers who advocate on behalf of the neglected, powerless, and less fortunate “find Christianity a way to anchor their position because Christianity advocates love for the marginalized and also justice. The Christian God is a God of love and justice. This provides an anchor ... a reason to risk their lives.” He notes that other faiths, such as Buddhism—with its quietism and focus on inner peace and denial of suffering—does not necessarily provide the same “motivation for fighting for justice and persisting in the struggle for human rights.”

As Christians motivated by a calling that they believe transcends transient hardships and the vagaries of government misrule, this group of lawyers is likely to persevere in their work despite their own continued risks. For example, after being abducted and tortured, lawyer Li Heping said in an interview with an overseas human-rights organization, “thank God for giving me an opportunity as an attorney to witness personally the harshness of electric torture...” As The Becket Fund’s Ms. Wu notes, “their Christian faith may give them the courage to do work that could be unpopular with the authorities ... The faith of these lawyers also seems to encourage an ethic of self-sacrifice for the public good, and perseverance in the face of temporal defeats because they believe ultimately what is good will prevail.” It is such stubborn resilience that seems to provoke equal parts aggravation, perplexity, and discomfort among the authorities.

While most of the Christian lawyers who are part of the weiquan movement began their professional careers before they embraced religious faith, their emergence also appears in turn to be influencing many Christian churches to expand their social teaching and involvements. For example, the Ark Church, an unregistered church in Beijing, provides pro bono legal assistance and distributes free pamphlets about the law in order to protect religious adherents

from human-rights abuses. Also, leaders of unregistered churches increasingly are learning about and defending the rights they ostensibly possess under Chinese law, including taking authorities to court for religious freedom violations. This growing political and social consciousness among many churches could mark a new phase in the maturing of indigenous Christianity in China. Yet its potential political ramifications should not be overstated. While future trends in China are notoriously resistant to prediction, it is likely that as unregistered churches become more active in supporting rights defense they will do so in an apolitical way that does not directly challenge the Party’s monopoly on power.

This is not to say that the weiquan movement, and particularly its growing numbers of Christians, does not have at least the potential to exert a decisive influence on China’s future. Indeed, the combination of a commitment to human-rights activism and a sustaining faith may increase the durability and impact of this group. The Chinese government seems well aware of this potential, and as Professor Yang notes in the March 2009 Freeman Report, “instead of equally repressing all religions, the regime has taken cautious measure to promote Buddhism, Daoism, folk/popular religions, and Confucianism, in part to counter the rapid increase of Christianity.”

As China today faces a staggering array of challenges—from an aging population to restive rural areas to imbalanced economic growth to entrenched corruption to brittle governance—perhaps its most viable hope is for the emergence of a healthy civil society and the organic growth of legal rights and norms that undergird genuine rule of law. To this end, the Christian activists who are part of the weiquan movement believe they can make a needful contribution, and remain undeterred even as the government appears to be increasing its pressure on them. ■



Dissecting the BJP's Meltdown

by Salil Tripathi

INDIA'S MAIN OPPOSITION party, the Bharatiya Janata Party, is in a critical meltdown. After losing an election in May that it thought it would easily win, its leaders are secluded in a bunker. They are refusing to consider changes that can make the party relevant again, are persisting with the leaders responsible for its defeat and are turning against internal critics.

The BJP's leader of the opposition, Lal Krishna Advani, 82 years old, ran a lack-luster campaign against the Congress Party in the parliamentary elections, wrongly assuming that his long innings in politics would be rewarded. He thought that a combination of anti-incumbency feelings and collective outrage over the terrorist attacks in Mumbai last November would be enough to defeat Congress. Instead, the BJP's parliamentary strength declined, the political Left was decimated, regional parties lost influence and, amid the chaos, Congress picked up more seats and returned to power.

Recriminations began early: Sudheendra Kulkarni, onetime adviser to former

prime minister Atal Behari Vajpayee and later to Mr. Advani, wrote a soul-searching essay analyzing the party's defeat. Mr. Kulkarni pointed out the party's failure to earn the confidence of India's Muslim community, citing, in particular, the leadership's failure to discipline Varun Gandhi, who made an inflammatory speech against Muslims during the campaign. Others noted how projecting Narendra Modi—the controversial chief minister of Gujarat under whose watch the state saw some of its worst religious rioting in 2002—as a future prime minister had backfired.

After the defeat, Mr. Advani remained the leader of the opposition, Rajnath Singh continued as the party's president and Arun Jetley, who ran the campaign, was promoted to be the lead BJP representative in the upper house of parliament. Internal opposition to these decisions from senior party members took a number of forms. Yashvant Sinha, former bureaucrat and finance minister, quit his party post. Jaswant Singh, who had held the defense,

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finance and foreign affairs portfolios, publicly questioned the party's leadership choices. Arun Shourie, an intellectual stalwart who had been in charge of privatization when the BJP was in power, chose to express his misgivings in private.

Things came to a head in August, when Mr. Singh published a book about Pakistan's founder, Mohammed Ali Jinnah, who is viewed by many in India as the main reason for the partition that took place on the eve of independence in 1947. In his book, Mr. Singh suggested that Jinnah had started out as a secular leader but was driven to his extreme position because of the intransigence of the leaders of the Congress Party. This argument is not particularly original: four years ago during a visit to Pakistan, Mr. Advani had himself praised the secular credentials of Jinnah, plunging the party into an existential crisis. Ostensibly piqued by the book, the BJP expelled Mr. Singh from the party the day the leaders met at a conclave in Shimla, which was specifically called to analyze the party's election defeat. The expulsion inevitably widened the schism within the BJP: Mr. Kulkarni resigned from the party, Vasundhara Raje Scindia, the former chief minister of Rajasthan, defied the leadership by refusing to resign as the leader of the opposition in her state and Mr. Shourie described the party as a kite adrift, calling Rajnath Singh names such as "Humpty Dumpty," "Tarzan" and "Alice in Blunderland."

In stifling dissent, the BJP is behaving like many other Indian parties, where leaders are suspicious of criticism and unwilling to change. When the BJP was formed in 1980, it chose a lotus emerging from slush as its election symbol. It held this up as metaphor to show it was different from the dynasty-obsessed Congress Party and the faction-ridden former Janata Party. The BJP and its leaders pledged to be selfless and not obsessed with power.

The BJP's uniqueness stems from the fact that many of its members belong to the Hindu nationalist Rashtriya Swayamsevak Sangh, a disciplined, cadre-based organization, which is sometimes praised for its social work but has also been banned three times because of its controversial Hindu supremacist views and its role in religious violence. This link creates a conundrum that the BJP has not been able to solve.

Although Hindus account for over 80% of India's 1.1 billion people, they do not necessarily vote for parties that represent their religious or sectarian interests. The BJP's predecessor, the Jana Sangh, rarely won more than 10% of the national vote. The BJP, too, barely manages more than 25%—its victories have relied on India's first-past-the-post system, in which a candidate need not have an absolute majority in a constituency to be elected to parliament; he simply needs the largest number of votes. That the BJP has managed to build on the Jana Sangh's voter base at all reflects the declining influence of other parties, including the Congress. The BJP's strength has grown because it has won the support of new voters, who want change from the three cornerstones of governance promoted by the Congress Party: socialism, secularism and non-alignment.

However, these new supporters do not always buy the BJP's anti minority rhetoric. The destruction of the Babri Mosque in Ayodhya in 1992 and the riots in Gujarat in 2002 have appalled many erstwhile supporters who do not condone the BJP's religious agenda of reclaiming mosques and rebuilding temples in their place.

The challenge for the BJP is to figure out a way to retain the support of the new voters without alienating the foot soldiers who have consistently voted for the party and form the bedrock of support for even its most extreme agendas. It is a difficult calculation: becoming more moderate may not guarantee the support of voters, who

have many other parties to choose from; becoming more hard line may ensure ideological purity, but it also brings in the kind of extremists to the party who alienate a large part of India. So the BJP cannot exclusively rely on either tactic to form a government on its own. To extend its reach, it will either have to forge an alliance with other parties, which will require it to tone down its religious stance as it did between 1998 and 2004 during its time in office, or remain firm and isolated. The party's leaders appear to be incapable of deciding where they want to belong.

One of the reasons for this indecision is that there are local rewards to be reaped for bad behavior: each time the party condones something outrageous—Ayodhya, Gujarat, Varun Gandhi's inflammatory speech this year—it has benefited from localized, albeit limited, political dividends. Even though their conduct was deplored and cost the party many votes elsewhere in India, Mr. Modi has been re-elected and Mr. Gandhi won his seat.

The BJP's failure to establish its identity leaves India without an effective right-of-center party to represent its growing urban society, rising middle class and the burgeoning movement out of poverty and toward opportunity. Instead of harnessing votes by focusing on common middle-class aspirations of lower taxes, simplified bureaucracy and better governance, the BJP offers religious rhetoric. Mr. Singh, Mr.

Sinha and Mr. Shourie have tried to point out some of these inadequacies but the BJP has silenced them in exactly the authoritarian way it once pledged not to espouse. Its leadership is old and its youth wing, Akhil Bharatiya Vidyarthi Parishad, offers little hope. ABVP is known more for

rabble rousing than training leaders. Recently, its members ransacked a professor's office at the Delhi University because they were prescribed an essay that they claimed blasphemed Rama, while other activists

were controversially freed in a murder trial because the judge felt that the prosecutors had prepared the case poorly. At this rate, the future of the party's leadership looks bleak.

What's at stake is the soul of the BJP. Should the party turn more strident or moderate its stance? Some look at Mr. Modi for inspiration, ignoring his inability to earn support outside Gujarat because Indian voters tend to abhor extremes. Each time the BJP has lost, the party feels torn between this dilemma—of choosing between mainstream politics and ideological purity. Its inability to make that choice is marginalizing the party. As long as its leadership remains in the hands of people unable to relate to a rapidly changing, younger India which is less interested in the past than in the future, its strength will continue to erode, its influence will diminish and its rival, the Congress Party, will be free to dominate. ■

The BJP's failure to establish its identity leaves India without an effective right-of-center party.



Sovereign Investors Still Strong in Asia

by Susan Lund, Charles Roxburgh and Bruno Roy



THE GLOBAL FINANCIAL crisis and economic recession have slowed, but not stopped, the growth of Asian sovereign investors' wealth and clout. Despite the turmoil of slumping trade, foreign capital flight and equity-market losses, the region's government-controlled foreign financial assets grew to an all-time high of \$4.8 trillion in 2008. Moreover, new research from the McKinsey Global Institute projects the region's assets will continue to rise over the next five years, with its growth rate determined by the pace and nature of the global economic recovery.

How can this be, when other investors around the world are reeling? The short answer is China. But the longer answer lies in a combination of factors, including continued trade surpluses, conservative investments, currency policies and other practices that have turned Asia's central banks and sovereign-wealth funds into major players in global capital markets for the foreseeable future.

Indeed, in an earlier 2007 MGI report, we included these investors among others

we dubbed "the new power brokers" because their rise reflected a dispersion of financial power away from traditional institutions in Western developed economies and toward new players in other parts of the world. Our new research shows that this dispersion is continuing and that, even amid considerable financial and economic uncertainty, Asian sovereign investors still deserve this moniker.

Growth Amid Turbulence

TO BE SURE, Asian economies have been hit by the crisis. Generally, the region has felt the effects through two primary channels. The recession in the United States and Europe has dampened demand for Asia's exports. In Japan, for example, exports dropped so dramatically that the country became a net importer in the second half of 2008. South Korea posted a trade deficit for the entire year. In addi-

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SOURCES: GLOBAL INSIGHT; PEOPLE'S BANK OF CHINA;
MCKINSEY GLOBAL INSTITUTE ANALYSIS

tion, the upheaval in financial markets in late 2008 caused a record outflow of foreign capital from the region.

Nonetheless, China ran a current-account surplus of \$426 billion in 2008, its biggest ever in absolute terms (although slightly smaller than 2007 as a proportion of GDP). All Asian countries together ran a combined current-account surplus of \$642 billion. Total foreign assets did not grow by quite this much because foreign investors withdrew a net of \$150 billion from the region in 2008, which lessened central-bank reserve accumulation. Some Asian governments also drew down their wealth to finance spending to stabilize their economies or support their currencies during the crisis. And many of the sovereign-wealth funds in the region reported significant investment losses for 2008.

As a result of all these factors, the combined foreign financial assets of Asian sovereign investors increased by \$400 billion, or 9%, from a year earlier—by our count the only major group of investors in the world to post such a gain. Although this pace is impressive against the backdrop of the global economic crisis, it marks a serious cooling from the sizzling 21% compound annual growth rate of the previous five years. Still, even with this recent slowdown, Asian sovereign investors' assets have doubled since 2003.

This wealth remains highly concentrated in the hands of central bankers. To-

gether, the region's central banks hold 90% of total foreign financial assets—worth \$4.3 trillion—and China's and Japan's central banks together account for 64%. When ranked against global asset managers, the People's Bank of China was by far the biggest at the end of 2008, while the Bank of Japan ranked ninth. These reserves are invested almost exclusively in liquid fixed-income securities—particularly United States Treasuries.

The other 10% of the region's foreign financial assets are held by Asia's six sovereign-wealth funds. Together, they have total assets of \$640 billion, of which \$490 billion is invested in foreign assets. Unlike central banks, these funds invest in higher-yielding foreign assets. Some, such as Singapore's Temasek and Malaysia's Khazanah Nasional, are active investors that take large equity stakes in companies with the goal of improving management. Others, such as Singapore's Government Investment Corporation, are portfolio investors that maintain diversified holdings of equity and fixed-income instruments. The goal of all funds is generally to create wealth for future generations.

China's Reserves Dilemma

AS THE CHART nearby shows, the overall growth in Asian sovereign investors' assets in 2008 was driven almost entirely by China, whose foreign wealth rose to \$2.1 trillion from \$1.6 trillion the year before. Japan and Taiwan's assets grew just slightly, while the foreign wealth of most other Asian countries declined.

Of China's bulging total, \$1.9 trillion were the foreign-reserve assets held by the PBOC, an increase of \$420 billion from a year earlier. The central bank's new capital came from the country's current-account surplus and \$16 billion in net capital inflows. The central bank also posted gains on its foreign investments in 2008, since

its reserve assets are heavily invested in U.S. government securities, which rallied during the financial crisis.

The assets of China's sovereign-wealth fund, the China Investment Corporation, also grew in 2008—one of the few sovereign-wealth funds around the world to report a gain. The CIC posted a 6.8% return on its registered capital in 2008. This performance is essentially attributable to the dividends generated from its shares of the country's largest domestic banks and brokerages, which account for just over half of the corporation's assets. These dividends offset the minus 2.1% generated by CIC in its global portfolio.

Yet the crisis has highlighted a growing dilemma for China:

How to maintain export growth without continuing to amass dollar-denominated assets? China's efforts to avoid rapid appreciation of its currency have resulted in rapidly growing foreign reserves, most of which are invested in dollar-denominated assets. This leaves China vulnerable to economic and financial turmoil in the U.S. In 2008, China increased its holdings of U.S. securities by an estimated \$600 billion, surpassing Japan as the world's largest foreign holder of U.S. Treasuries and bringing its total dollar assets to around \$1.4 trillion.

This large and growing exposure to the dollar creates the potential for substantial losses if the greenback depreciates sharply. In the past, this possibility seemed remote. It seems more plausible today, however, with U.S. banks facing massive credit losses, the American economy in recession and the federal government running trillion-dollar deficits.

In recent months, Chinese officials have raised the possibility of supplanting the

dollar with a new global reserve currency. Yet, this is a long-term goal at best. The dollar has emerged as the world's primary reserve currency because of the deep and liquid financial markets for dollar assets, the strong productivity growth and innovation in the U.S. economy, and America's stable and generally effective legal and regulatory institutions. The financial crisis has undoubtedly shaken these foundations. Yet the Eurozone and Japanese currencies—the main alternatives to the dollar—

have been weakened by the downturn as well.

An alternative solution for China would be to avoid further reserve accumulation through policy changes. This could be achieved by allowing more rapid apprecia-

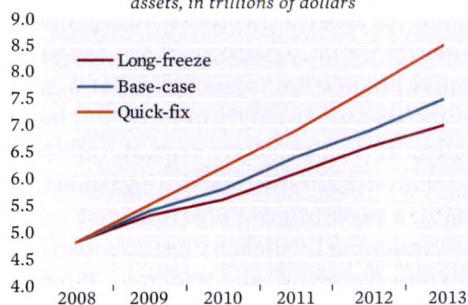
tion of its currency, the yuan, or by encouraging more foreign investment by corporations and private citizens. Already we have seen some steps in this direction. Since 2000, China has allowed a 17% nominal appreciation of the yuan versus the dollar, although this policy has been suspended for the last year.

The government also is encouraging Chinese corporations to invest overseas. In May, the central bank's State Administration of Foreign Exchange issued draft rules to make it easier for companies to raise dollars in China to invest abroad. And over time, we have seen strong growth in outward foreign direct investment by Chinese corporations, in everything from commodities to computers. These capital flows grew from less than \$1 billion in 2000 to a record \$53 billion in 2008—an amount equal to the aggregate of the previous six years. Still, these flows are small compared with the \$420 billion of central-bank reserve purchases in 2008. We calculate Chinese FDI would

Asian governments' foreign assets will continue to grow over the next five years in almost any scenario.

NOWHERE BUT UP

Estimate of future assets in Asian sovereign-foreign assets, in trillions of dollars



SOURCE: MCKINSEY GLOBAL INSTITUTE

need to increase sevenfold over the next five years to significantly slow the pace of future central-bank reserve purchases.

There are also opportunities to expand Chinese foreign investments beyond FDI. For instance, purchases of foreign-equity securities by Chinese corporations and households grew to \$15.2 billion in 2007 from negligible levels in 2005, before dropping back to just \$1.5 billion during the market tumult of 2008. Foreign-debt securities transactions by Chinese entities other than the central bank have been fairly volatile, ranging from a net purchase of more than \$100 billion in 2006 to net sales in 2007 and 2008. All this is to say that there is room for further growth of many types of capital outflows.

The rest of Asia was more battered than China by the crisis of 2008. Plunging exports and large outflows of foreign capital caused foreign assets to grow much more slowly in some countries and to decline in others. Japan's current-account surplus, for instance, fell in 2008 to \$170 billion while foreign investors sold net investments of \$120 billion in the country. By the end of 2008, Japan's sovereign-foreign assets, which consist entirely of central-bank reserves, had grown just 5% to slightly more than \$1 trillion. This pace marked a sharp drop from the rapid 16% compound annual growth rate recorded from 2002 through 2007.

Excluding China and Japan, the combined current-account surpluses of other Asian countries fell by more than half—53%—in 2008. Net outflows of private capital were even more dramatic, reaching \$146 billion in 2008 in contrast to net inflows of \$31 billion the previous year. As a result, the combined sovereign-foreign assets of other Asian countries fell 5%, to \$1.7 trillion, in 2008—an abrupt reversal after five years of increases at a 14% rate. South Korea was the worst hit, with its sovereign-foreign assets declining by 18% after it spent down its reserves to defend its currency. The assets of India and Singapore tumbled by 9% and 4% respectively. Taiwan and Hong Kong did better, with Taiwan's sovereign-foreign assets rising by 6% and Hong Kong's holding steady.

Also contributing to declines in foreign assets were the investment losses posted by several Asian sovereign-wealth funds. On the basis of total gains and losses, as well as new capital injections, we estimate that Asian sovereign-wealth funds collectively lost a net \$32 billion, or 4%. This performance was better than the 45% decline in global equities, but has nonetheless drawn criticism within these countries, causing several funds to postpone any new investments until financial markets stabilize.

Asian Asset Growth Secure

OUR RESEARCH SHOWS that Asian governments' foreign assets will continue to grow over the next five years in almost any scenario for the global economy. We modeled the growth of Asian sovereign assets in three proprietary macroeconomic scenarios developed by McKinsey & Company and Oxford Economics. Together, the scenarios lay out a range of potential outcomes for the recovery of economic growth, trade flows, and financial markets. A key factor in all scenarios is that

China and other Asian countries continue to run current-account surpluses, although in China's case, this is declining as a proportion of GDP. This means that they will continue to accumulate net new foreign assets unless Asian governments encourage more private foreign investments or allow currency appreciation.

In our conservative base-case scenario, the recession continues through this year, with global GDP beginning to grow again in mid-2010. As the chart on page 54 shows, under the current set of policies, Asian sovereign assets grow half as fast in the next five years as they did through 2007, reaching \$7.5 trillion by 2013. China's sovereign-foreign assets double over this period, reaching \$4 trillion in 2013 and accounting for more than half the region's total.

We also considered a scenario in which the global economy recovers sooner, starting to expand again in late 2009 (labeled the "quick fix"). Asian current-account surpluses are the largest among the scenarios. Sovereign-foreign assets grow 12% annually to reach \$8.5 trillion in 2013, with China accounting for \$4.7 trillion by that time.

Finally, we looked at a scenario in which the global recession drags on for much longer and GDP does not start growing until 2011 (labeled the "long freeze"). In this case, global capital markets remain impaired for longer and trade stays well below its peak. We assume that net private capital inflows drop to zero as crossborder investment activity declines. Even in such dire circumstances, however, Asian sovereign investors would see their assets grow to \$7 trillion by 2013, reflecting an 8% compound annual growth rate. In this case, Asian economies continue to run trade surpluses—although their exports decline, their imports decline even more.

One important caveat to note in these projections: they all assume that there will be no major changes in Asian monetary policy that could substantially reduce the accumulation of foreign reserves. As we noted earlier, moves to allow more currency appreciation or more private investment abroad could slow foreign reserve accumulation in coming years and result in less asset growth than we project.

There is no evidence that Asian sovereign investors will abandon their long-term investment horizons, but the events of 2008 are spurring some shifts in strategy. China is searching for ways to promote higher domestic consumption, a move that will eventually help reduce global financial imbalances and slow future reserve accumulation. China also will seek to use new investments to diversify away from the dollar and to hedge the risks of higher global inflation.

Asian sovereign-wealth funds are also making some changes. They have increased transparency to allay concerns about their investments. They have also accelerated their hiring of outside financial professionals, tapping the talent being shed by Western banks and other financial institutions. This will enhance their financial capabilities and may eventually enable them to become less dependent on external investment managers.

Overall, Asian sovereign investors are continuing to gain in expertise as well as wealth. China will remain the primary engine of this growth for the foreseeable future. But Asian sovereign investors generally will remain significant "power brokers" in global financial markets, establishing themselves alongside traditional institutional investors as large pools of capital and major players for the foreseeable future. ■



Najib Walks the Malaysian Tightrope

by Simon Montlake



N AJIBRAZAK'S BACKGROUND led many to believe that he would seek to preserve the status quo rather than embrace reform. But since becoming Malaysia's sixth prime minister, this consummate political insider has begun to grasp the nettle of change. Not all his reforms are substantive, and the payoff in terms of investment in a shrinking economy is still elusive, but even his critics concede that Mr. Najib seems prepared to stare down what his predecessor was unwilling to face: protectionism, corruption and ethnic-based discrimination that has made Malaysia's economy increasingly unattractive to investors.

The contrast with Mr. Najib's past career is instructive. The eldest son of Abdul Razak, Malaysia's second prime minister, he was born into privilege and studied in the United Kingdom. In 1976 at age 23, he was elected as a member of parliament. He steadily ascended the ladder at the United Malays National Organisation, the party that has governed Malaysia via a coalition since independence from the U.K. in 1957.

Once former Deputy Prime Minister Anwar Ibrahim was defrocked in the tumult of 1998, Mr. Najib was destined for the top job. He would have got it in 2003 had not then Prime Minister Mahathir Mohamad opted instead for Abdullah Badawi, a Muslim scholar who was a seat-warmer for the younger Mr. Najib. On April 2, 2009, Mr. Najib finally brushed aside Mr. Abdullah to assume what many saw as his birthright.

Yet Mr. Najib has shown a surprising willingness to challenge longstanding UMNO policies. He began his term by opening up parts of the service sector to unrestricted foreign investment, including health care and logistics. He also unveiled a campaign called 1Malaysia, a nod at interethnic and interfaith unity that implicitly acknowledged the corrosive impact of UMNO's pro-Malay ideology.

Then, in late June, Mr. Najib dropped a much larger bombshell. At a foreign-investment forum in Kuala Lumpur, he announced that public companies would no

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longer have to allocate 30% of their equity to bumiputra, or sons of the soil. This category comprises ethnic Malays, who are defined as Muslim and speakers of Malay, and indigenous groups in eastern Malaysia. Bumiputra privileges include subsidized housing, college places and priority for government contracts.

Introduced in 1971, the New Economic Policy (NEP) was designed to redress historic social and economic inequities. Its architect was none other than Abdul Razak. His son has now taken an axe to some, though not all, of its cherished rights. Mr. Najib argues that the need to expand the overall economy must take precedence over the ethnic-based division of the spoils. Other restrictions on foreign investment were also relaxed, and included an end to a cumbersome approval system for inbound acquisitions and takeovers. Foreign firms can now hold majority stakes in securities companies and fund management companies.

Taken together, the economic reforms were a pitch for foreign investment, which had begun to falter long before the current global downturn. In recent months, Mr. Najib has courted domestic constituencies with giveaways, including new taxi permits and toll-road discounts. In a concession to disaffected Indians, he released two imprisoned activists who led mass protests that stirred interracial tensions in 2007. He also promised to set benchmarks for more efficient government services and for tackling crime.

Malaysia's pliant mainstream media dutifully hailed the benevolence of its new boss. "Najib Gives Hope to Ordinary Folk," ran a column in the *New Straits Times* af-

ter Mr. Najib marked his first 100 days in office with 11 populist policies. Never mind that 100-day markers properly belong to presidential systems, not parliamentary ones.

What lies behind this reformist zeal? In a word, desperation. Mr. Najib heads a political party that has badly lost its way, particularly among young voters who cannot be placated anymore by feel-good bromides.

As one former government advisor told me, Internet-savvy youth "couldn't care less that you built a road" in their district. Their demands have changed as Malaysia has changed. Increasing affluence has raised the bar for the governing elite that built its legitimacy on fast-track growth and social stability.

To fend off a resurgent opposition led by Mr. Anwar, his former rival for the UMNO crown, Mr. Najib needs to reconnect with voters. That means systemic reforms that go beyond the half-measures of his predecessor. Such reforms incur a cost, however. That Mr. Abdullah failed to make substantial changes was largely a function of resistance within UMNO. Mr. Najib faces the same challenge from party bosses. The difference, according to Khairy Jamaluddin, a senior UMNO executive, is that Mr. Najib doesn't have room to fail. "It's either sink or swim. It's survival," he said in an interview. It's a point echoed by other UMNO officials.

Loosening the rules for foreign investment is essential to Malaysia's goal of being more than a middle-income country that exports manufactured goods such as electronics and commodities such as palm oil. First outlined by Mr. Mahathir, Malaysia 2020 sets a target of becoming a fully developed country over the next decade.



Mohamed Najib Razak

UMNO crown, Mr. Najib needs to

According to the government's economic planning unit, this means the economy must grow at an average annual rate of 7%. That is more than Malaysia has managed since the 1997 Asian crisis.

Clearly, a trajectory that relies on old models is not enough, and that's why the NEP, long held sacred by UMNO, is in Mr. Najib's cross-hairs. No serious economic overhaul is possible as long as ethnic privileges determine how and where businesses operate in Malaysia. Foreign investors aren't the only ones chafing at these restrictions. Nazir Razak, Mr. Najib's brother and the chief executive of Malaysia's second-largest bank, has called the NEP a major impediment to competitiveness and a brake on investment.

For non-Malays, moreover, the NEP is a divisive symbol of injustice and the prime reason why Malaysia is experiencing a brain-drain of ethnic minorities. Talented Chinese and Indians go overseas to study and work, and inevitably some never return. Ironically, given the historical rivalry, Singapore is the largest beneficiary of this outflow. By relaxing the 30% bumiputra equity rule, Mr. Najib is encouraging both foreigners and the influential Chinese business community to invest in a country that can offer natural resources, manpower and, at least until recently, political stability.

Reforming the NEP goes hand-in-hand with promises of a more inclusive style of UMNO leadership. An opinion poll taken in June, before the reforms were unveiled, showed a jump in Mr. Najib's approval rating among Indians and Chinese. His overall rating was 65%, up from 42% prior to his accession to the job. Pro-UMNO commentators seized on the poll as proof that

replacing the unpopular Mr. Badawi had rejuvenated the ruling coalition.

However, the political enmity between the UMNO-led coalition and Mr. Anwar's rival bloc continues to cleave the country along ethnic lines. UMNO's tactic of denouncing Mr. Anwar as a traitor to Malays for plotting with minorities to oust the ruling coalition may play well with its base, but it undercuts the conciliatory Malaysia campaign. It's also dangerous territory for Mr. Najib, who must also watch his back against Malay nationalists who decry any sellout to minorities. Dismantling the NEP by stealth is a tightrope walk for a leader whose supporters hold its privileges to be as much a birth-right as a correction of inequities.

For its part, the opposition has to tread carefully in provoking police crackdowns on its rallies. Such heavy-handed treatment of peaceful protesters may appall foreign observers, but it is easily spun by supporters of the UMNO into a cautionary tale of freedom run amok.

Mr. Najib's goal of raising efficiency through a more level playing field for business may be laudable, but it's anathema to those who benefit from a tilted field, particularly in the awarding of government contracts and permits. This is where his reformist project may flag. Thousands of Malay contractors are locked into patronage networks with UMNO officials—a pattern mirrored among other ethnic-based parties in the ruling coalition. Government procurement rules give priority to bumiputra companies and any attempt to dilute this privilege is bound to encounter serious resistance from UMNO bosses.

Moreover, the small print of June's announcement insists that initial public of-

What lies behind this sudden reformist zeal? In a word, desperation. But all this may be too little, too late.

ferings still allocate half of new equity to the bumiputra. And a new government investment agency is being set up to support bumiputra companies, creating a fresh source of patronage politics. The level playing field is a work in progress.

A careful recalibration of the NEP, one that admits its flaws and redefines its economic goals, is in Malaysia's interests. If it brings enough voters back to the UMNO-led camp, it also makes for smart electoral politics. Mr. Anwar campaigned on a platform of ending the NEP and focusing on nondiscriminatory antipoverty programs, so Mr. Najib has stolen some of his rival's thunder.

But it may be too little, too late. Malaysia's export-led economy is in trouble, and that means less government largesse to distribute. Fund managers say the dilution of NEP privileges and other market-friendly reforms are positive but probably won't bring in fresh short-term investment. It's hard to be even-handed when the pie is shrinking. It also increases the risk that the government will aggressively milk its cash cows—notably Petronas, the state-owned oil company—for pump-priming budgets. Starving Petronas of investment capital is not the way out of a crisis.

Mr. Najib could overcome resistance to

reform by calling snap elections and seeking an electoral mandate. A victory at the polls would give him a more free hand to liberalize the economy and face down dissent within UMNO. Otherwise he may go the way of Mr. Abdullah, a reformer-in-waiting who never quite arrived.

Some politicians in Mr. Anwar's camp, beset by its own internal troubles, are on guard for elections, possibly as early as November. But it would be risky for Mr. Najib to bet too heavily on a bump in his personal approval ratings. Voters in key states of peninsular Malaysia rejected the UMNO-led coalition in March 2008, so that only the loyalty of political allies in Eastern Malaysia maintained its federal majority. Anti-UMNO sentiment is still running dangerously high.

Polls carry other risks in a charged political climate. One dire scenario would be an election defeat that UMNO attempts to scupper by invoking emergency rule. Mr. Anwar and other opposition lawmakers acknowledge the risk but say the public pressure would be too intense for such tactics to work.

Asked if that was true, Mr. Khairy shook his head emphatically. To cling to power in the face of an electoral defeat would be "a catastrophe," he said. ■



REVIEWS



**THE POWER OF THE INTERNET IN
CHINA: CITIZEN ACTIVISM ONLINE**

by Guobin Yang
Columbia University Press,
320 pages, \$29.50

Reviewed by REBECCA MACKINNON

TWO SHORT MESSAGES were posted to Twitter at 5 a.m. on July 16 by somebody called “amoiist”:

“Pls help me, I grasp the phone during police sleep.” “I have been arrested by Mawei police, sos.”

These “tweets” were quickly “retweeted” by hundreds of people in China and around the world. Nothing more was heard from amoiist, real name Guo Baofeng, on the Internet. But his short postings—sent furtively from a mobile phone while the policeman watching him dozed—were enough. People in Mr. Guo’s Twitter network who knew his real identity followed up with his family and friends in the city of Mawei.

News quickly spread around Twitter that the police had taken Mr. Guo from his office the previous afternoon. He was arrested along with several other bloggers on defamation charges after posting information online related to an alleged gang rape and death of a young woman. The case had enraged Chinese netizens writing in chatrooms and blogs after the young woman’s parents insisted she had been violently raped, despite an official autopsy

listing the cause of death as a hemorrhage from an ectopic pregnancy.

Bloggers immediately rallied for Mr. Guo’s release. One blogger organized a campaign in which hundreds of people mailed postcards to the Fuzhou detention center where Mr. Guo was being held with the simple message: “Guo Baofeng, your mother wants you home for dinner.” Other people organized a fund-raising drive to pay for his defense. After 16 days in detention, Mr. Guo and two other bloggers arrested around the same time were released. “I used Twitter to save myself,” he wrote on his blog. The massive online reaction, he believes, helped to free him.

I was a Beijing-based correspondent for CNN in the 1990s before the Internet became widespread. If Mr. Guo had been arrested then, few people in China would have ever known. Most likely the foreign media would have found out via a handwritten fax sent by a Hong Kong-based activist. If editors deemed the story important enough, we would report it. But many arrests, particularly those in which details were sketchy involving people unknown to the international human-rights community, would go unreported even in the foreign media.

Now people like Mr. Guo with Blackberries and Twitter accounts can instantly rally people inside and outside China to help them. Not only do the tools exist, but a community has developed around the tools, a community that spreads information and mobilizes people to act. That is a profound change.

Guobin Yang’s book is an in-depth exploration of this evolution. Make no mistake, democracy is as absent as ever from China’s

Ms. MacKinnon is an assistant professor at the University of Hong Kong’s Journalism and Media Studies Centre. She writes frequently about the Internet, free speech and China at <http://rconversation.blogs.com>.

political system. Yet while there has been no political revolution, Mr. Yang argues that China is undergoing a “communication revolution” that is “expanding citizens’ unofficial democracy.” He believes “this communication revolution is a social revolution, because the ordinary people assume an unprecedented role as agents of change and because new social formations are among its most profound outcomes.” As a sociologist, not a political scientist, Mr. Yang provides no insight into how China’s profound cultural and social changes might actually lead to political and institutional change. He concludes, however, that these deeper changes are laying the groundwork for the eventual realization of “institutionalized democracy.”

The Power of the Internet in China is an important contribution to the English-speaking world’s understanding of Chinese Internet culture. It is the product of 10 years’ worth of research and fieldwork, physically in China and in Chinese cyberspace. Mr. Yang’s fact-based research is informed and enhanced by his personal experience as a mainland-born scholar who lived through the fanaticism of Mao’s Cultural Revolution. As a Chinese graduate student and then professor based in the United States, he experienced firsthand how new technologies enable global Chinese communities to stay connected with people and events back home for a range of purposes—personal, professional, as well as activism surrounding all kinds of causes across the political spectrum.

Readers who can’t read Chinese—or even those who can but don’t spend time surfing the Chinese Internet—will be surprised by many of Mr. Yang’s findings. Despite China’s authoritarian political system, censorship and surveillance, the Chi-

nese Internet that Mr. Yang describes is a highly contentious place; debate is fierce and passionate. While political realities prevent the Internet from being a medium for overt political organizing as it is in most democratic countries today, he provides a range of examples of how outraged citizens have used the Internet to expose and bring down corrupt officials. Thus the Internet is influencing how government officials behave, at least at the local level.

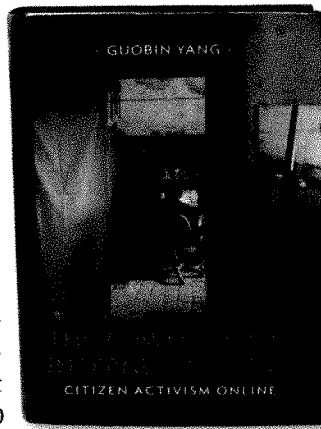
While it is difficult for NGOs to survive

and thrive in China due to political constraints, Mr. Yang finds that new organizations in particular have used the Internet to raise awareness for causes and expand membership. Many more people use the Internet to organize informally around matters of common concern, such as a shared medical ailment. One of the examples he cites is the story of how students and parents used the Internet to raise

awareness about university discrimination against diabetic students; they eventually succeeded in changing university admission practices nationwide.

Mr. Yang points out that the contentious nature of Chinese Internet culture has pre-Internet roots; it is influenced by a long tradition of social protest throughout Chinese history. (He is an authority on such protest; his previous research focused on youth during the Cultural Revolution.) The Chinese are using the Internet to create new communal narratives about what is happening in their country and around the world.

The Chinese Internet is a “window” through which people share emotional and social bonds that ultimately shape their ideas of justice and fairness, arriving at a rough consensus on what should



be considered acceptable behavior by both the powerful and the hitherto powerless. It is a place where millions of people play out their fantasies and emulate legendary heroes—many use screen names and language that evoke the literature of the Warring States period.

The Chinese Internet is also an often hilarious and delightful place—full of jokes, puns and parodies. Internet businesses have an incentive to promote contention and debate—as well as creativity and light-hearted fun—as a way of gaining customers and traffic. A transnational space for Chinese culture has also emerged; the long-term consequences are yet unclear.

Readers seeking predictions about how all of these changes will affect political outcomes in China over the next few decades are likely to be frustrated. This is not intended as a predictive book, and Mr. Yang wisely makes no attempt to forecast future events based on current trends. But for an in-depth understanding of how life has changed for China's 300 million plus Internet users, and how these personal transformations have in turn affected contemporary Chinese society and culture, Mr. Yang's work is essential reading.

**DOWN A NARROW ROAD: IDENTITY AND
MASCULINITY IN A UYGHUR
COMMUNITY IN XINJIANG CHINA**

by Jay Dautcher

Harvard University Asia Center,
350 pages, \$39.95

Reviewed by PAUL MOZUR

A UYGHUR MAN SHOWS up late for a night out with friends. His buddies, who have already begun drinking, "fine" him three shots of liquor for his tardiness. Understandably careless by the third shot, the man spills a small

amount of liquor onto the table. "That's another fine," his friends cry. Several shots later, the man emerges from the bar sloshed and bumps into a Chinese cop. The police man stops the man and tells him he's disturbing the peace. "I'm going to have to fine you," he says, to which the man responds, "Aww, shut up and pour!"

Not surprisingly, Han Chinese and the political situation in Xinjiang are the butt of many a Uighur wisecrack. In the face of mass Han immigration and policies that often block upward mobility, Uighur jokes provide one of few release valves for enmity against the Han that has simmered since the People's Liberation Army landed in Urumqi in 1949.

Unfortunately, as funny as the jokes are, they can never provide enough of a release to avoid ugly incidents like early July's riots in Urumqi that left around 200 people dead and hundreds more injured. In examining at the violence, the minutiae of Uighur culture are as important as any policy analysis in pinpointing how conflict between the two cultures erupts. As Jay Dautcher shows, soccer leagues, jokes and drinking sessions are all related to the tensions in Xinjiang that so tragically sparked this summer's violence.

In this highly readable repackaged Harvard University doctoral thesis, Mr. Dautcher, a free-lance writer and academic, strives to provide a "thick description of Uighur culture." The book, which pulls from Mr. Dautcher's experiences in the Xinjiang-Kazakhstan border city of Yining from 1995-96, refreshingly opts to describe more than it analyzes. While other excellent treatments of Uighur culture, such as James Millward's *Eurasian Crossroads* and Justin Rudelson's *Oasis Identities*, have focused on history and ethnonationalism respectively, Mr. Dautcher

Mr. Mozur is a free-lance writer based in Taipei.

seeks to evoke Uighur culture as precisely as possible in the time and place he experienced it. A humanizing picture of the ethnic minority and the day-to-day conflicts between Uighurs and Han emerges as the reader is confronted with numerous firsthand sources and anecdotes.

Most instructive is Mr. Dautcher's account of the *meshrep*, a loose term used to describe prayer meetings in which men discuss Islamic practice, deliberate on important community matters, such as collecting funds to support philanthropic endeavors, and apply ritualized punishments to members for bad behavior. By the time Mr. Dautcher arrived in Yining in 1995, the *meshrep* had been outlawed, but the charitable endeavors of clandestine *meshreps* still caused friction between Uighurs and the Chinese government that would erupt into conflict. Thousands of Yining's Uighurs took to the streets on Feb. 5, 1997 in an uprising that led to the mobilization of more than 200,000 military personnel and left more than 100 people dead by some estimates.

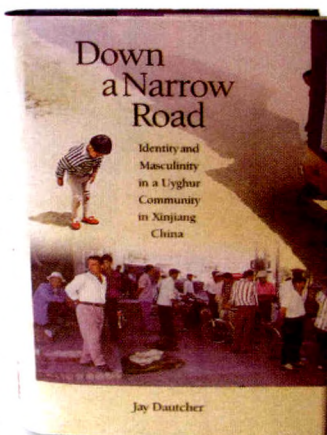
Before this uprising, *meshrep* groups attempted to organize a 16-team youth soccer league in August 1995. Each team would represent one of the *mehelle*, or neighborhoods, around Yining. Amidst the marketplace buzzing in anticipation of a tournament that would kick off the league, the government rescinded the use of school facilities it had earlier granted and parked tanks on the fields residents had worked hard to spruce up. When hundreds of Uighur men marched two days later in silent protest of the "military exercises," paramilitary squads occupied intersections and snipers took up positions on roofs.

The value of Mr. Dautcher's ethnog-

raphy extends beyond its illustrations of Han-Uighur tensions in the region. His portrayal of the *meshrep* dovetails with its nonreligious counterpart the *olturash*—a drinking session during which Uighur men taunt each other, crack jokes, listen to music or poetry, and "fine" each other arbitrarily. The liquor of choice for such sessions, fiery *baijiu*, ensures an *olturash* is as likely to end in a fight as saccharine proclamations of love or confused inebriation. In Mr. Dautcher's warm telling of his Uighur drinking stories, it becomes clear that Uighur masculinity encompasses humor, cultural appreciation, intelligence and hotheaded stubbornness alike.

While it is useful to hear Mr. Dautcher's every observation and occasional analysis of what he sees, he sometimes becomes too detailed. He "reads" the Uighur tendency to hit pool balls too hard and pokes fun at losers for lacking courage as follows: "The player wields his symbolic penis, trying to penetrate a passive receptacle that awaits him, and to do it with a force sufficient to break that receptacle, in order to gain victory over his opponent and demonstrate his masculinity." It is difficult to go along with this pseudo-Freudian poppycock, not just because his analysis is overwrought, but because men making jokes about their testicles during a pool game is as likely to be observed in fraternity houses in Alabama as in the markets of Yining. Contrary to Mr. Dautcher's belief, this says little about masculinity within Uighur culture.

Variations among different oases and changes in Xinjiang that have taken place over the past 13 years since Mr. Dautcher completed the research for his book demand a more in-depth and up-to-date



treatment of the region, but this is unlikely to emerge in the coming years due to visa restrictions for academics. Mr. Dautcher's book, though a success, is only a small step toward a coherent picture of Uighur culture. Still, *Down a Narrow Road* helps to establish a foundation for understanding that might yet blossom into international awareness and activism similar to that enjoyed by the Tibetan movement in past years.

The sad reality, however, is that even such activism would be unlikely to bring about change. It may be a long time before the Uighurs can live without fear of oppression. Perhaps this is why Mr. Dautcher's heavy use of Uighur jokes is somewhat reassuring; it's good to know the Uighurs can laugh in the meantime.

**IN THE GRAVEYARD OF EMPIRES:
AMERICA'S WAR IN AFGHANISTAN**

by Seth G. Jones

W.W. Norton, 464 pages, \$27.95

Reviewed by IAN CHESLEY

THIS SUMMER, THE American foreign-policy community has divided into a number of camps over the future of Western involvement in Afghanistan. In the absence of a huge increase in United States and NATO troops—which is impossible for now, due to commitments in Iraq and European trepidation—scholars and wonks with varying degrees of expertise on Afghanistan are trying to come up with new ideas for how to best use the limited resources available.

On one side are academics who have been calling for a redefinition of the strategic goals of the American presence in Af-

ghanistan. Rory Stewart, director of the Carr Center for Human Rights at Harvard, recently published an essay that criticized the desire to use Afghanistan as a petri dish for Washington's bureaucratic fantasies. These scholars would prefer a greatly scaled-back mission, arguing that though the Taliban are a weakened force, the presence of foreign troops provokes what they are there to prevent.

On the other side there are the "counterinsurgents." The Western model of counterinsurgency believes that the war can be won, but direct force should be avoided. The epicenter of the counterinsurgency camp is the Center for New American Security, which recently published a major report by Andrew Exum and David Kilcullen. Both were recently involved in a major strategic review in Kabul, a sign of how influential their ideas of "protecting the population" and a "civilian surge" have been.

Such experts have yet to explain, though, how to protect the entire population of Afghanistan with only around 60,000 NATO soldiers. They tend to fill in the blank spots with to-be-trained Afghan National Army soldiers, but a recent mission by a Marine brigade in Helmand was accompanied by a paltry 400 Afghans. There is no indication that those numbers will improve anytime soon.

Finally, there are the actual government bureaucrats who have been administering the effort in Afghanistan. Few have as unobstructed a view of Washington as Seth Jones, an Afghanistan analyst at the RAND Corporation, lecturer at Georgetown University and author of *In the Graveyard of Empires*. James Dobbins, Mr. Jones' superior at RAND, was the State Department's envoy to Afghanistan in 2001-2002. Thus, Mr. Jones's job has afforded him access to high-ranking generals and ambassador-level diplomats.

In his new book, Mr. Jones uncontro-

∞ Mr. Chesley studied Central Asia at Harvard and was awarded a doctorate in Slavic languages in 2007.

versially lays the blame for the current U.S. predicament in Afghanistan at the feet of Donald Rumsfeld, President George W. Bush's secretary of defense from 2001 to 2006. Mr. Rumsfeld's "light footprint" concept of war, as well as his insistence that American military force should not be an instrument of nation-building, defined the first years of post-Taliban Afghanistan. The focus on "high-value targets" blinded the policy community to the insurgency that gestated for years in the Pashtun areas of Afghanistan and Pakistan and emerged in its mature form in 2006. Mr. Rumsfeld, like the counter-insurgents of today, proposed that Afghanistan would eventually be able to protect itself with its own national army and police.

There is some evidence of weapons smuggling, but to say that Iranian state policy supports the Taliban is grossly inaccurate.

Mr. Jones' history of the last eight years in Afghanistan is a melancholy tale of what might have been. Because Washington is the sea in which Mr. Jones swims, however, it becomes difficult to pull apart the received ideas of his very important interviewees from his own policy recommendations. For example, a central point of his book is the political science dogma that more "governance" means less insurgency. In Washington, his claim is accepted without criticism. But it does not take into account the fact that many traditional Afghan communities would greatly prefer to be left alone by "governance" than to be beholden to modern legal systems and international norms. In fact, the government of Zahir Shah, the last king of Afghanistan who ruled from 1933 to 1973, survived as long as it did, albeit unstably, because of its decentralized structure.

In some cases, Mr. Jones unquestioningly reprints the thinly sourced opinions of American officials. For instance,

he writes that Iran is somehow involved in derailing Operation Enduring Freedom. He calls Iran's alleged support of Sunni extremists "somewhat surprising." A better term to use would be "highly unlikely." Iran's government, which is based on radical Shia doctrine, almost went to war with the Taliban regime in the 1990s when Taliban soldiers massacred a group of Iranian diplomats in the northern city of Mazar-i Sharif. There is some evidence of weapons smuggling by Iranian entrepreneurs, but to say that Iranian state

policy supports the Taliban is grossly inaccurate. The emphasis that Mr. Jones places on Iran means that the massive funding for the insurgents from individuals in the Gulf is practically relegated to footnote status.

In the book, corruption appears to be almost as great an enemy to the U.S. project as are the insurgents. Mr. Jones calls corruption a "cancer" in the government, which would seem to imply that corruption is something other than the government. At this point, following his suggestion and arresting all corrupt officials in Afghanistan would leave no one to mind the store.

President Hamid Karzai regularly pardons convicted drug traffickers, partly because his own administration's fate is so closely tied to theirs. This is not to mention that the failure to end drug-fueled corruption in surrounding countries such as Tajikistan or Iran (both of which have fairly recent histories of civil conflict) has not prevented these countries from reducing their respective insurgencies to insignificant levels. It is not clear how or why eliminating corruption will convince young Afghan and Pakistani men not to fight.

Another of the more blatant paradox-

es of Mr. Jones's policy recommendations has to do with the role local institutions should play in governing. For Afghanistan, he recommends partnering with the "tribes, subtribes and clans" without really explaining what that might entail. But for Pakistan, he points out that local institutions in the tribal areas aren't up to the task of eliminating the safe haven that terrorist groups have found there, so they must be more solidly integrated into the political administration of the country.

For all of the debate over how to administer the Afghan government, it still remains to be seen how Western armies in the country will be able to control the countryside. Even formerly peaceful provinces in the north—Kunduz, for example—have recently become insurgent strongholds, and, in the majority of the country, insurgents freely operate at night when the troops are back at their bases. This is something that administrative restructuring and policy catchphrases will not alleviate.

**WHEN CHINA RULES THE WORLD: THE
RISE OF THE MIDDLE KINGDOM AND
THE END OF THE WESTERN WORLD**

by Martin Jacques

Allen Lane, 576 pages, \$29.95

Reviewed by KERRY BROWN

JUST AFTER HU JINTAO'S elevation to party secretary and president of China in 2003, Zheng Bijian, a septuagenarian Communist Party stalwart, started producing his "peaceful rise of China" declarations, one of which appeared in *Foreign Affairs* magazine. There was no question that Mr. Zheng was supported by the highest levels of the Chinese government in his intellectual charm offensive. Suspicions aroused by China's increasing economic might (overtaking

Germany as the world's third largest economy and becoming holder of the world's largest reserves of foreign exchange by 2007), and mounting fears over the country's military and political intentions had led to the feeling that someone had to step forward and start explaining China's motives to the rest of the world, if only as a means of reassurance.

"Peaceful rise" did not exactly fit the bill. Many observers saw clear evidence of China's grand ambitions and viewed the world "rise" as sinister, despite the modifying adjective. "Peaceful development" became the more common term until the end of 2008. But perhaps as a result of the "can't win whichever way it falls" outcome of the Olympics, where the Chinese saw their hosting of a great event as marred by criticism and brickbats from negatively minded people outside the motherland, the word "rise" has made a comeback this year. And this time, "peaceful" is nowhere in sight.

China is a huge, populous and massively influential country. It should not need to be so apologetic about having an impact. Even so, Martin Jacques's important new work about China's global role in the coming future captures one crucial element of why China's "rise" should matter. By his account, China is not just taking its rightful place among the major nations of our era; it is setting out a whole new way of being a nation.

Mr. Jacques, the former editor of *Marxism Today*, makes clear in almost 500 pages that if we want the world to continue as it is, then we are about to be rudely awakened. China's rise is a fact, but just as important is that this rise will have a radical impact on notions of nationhood, sovereignty and international order.

Mr. Jacques's thesis revolves around the

∞ Mr. Brown is an associate fellow of Chatham House London and author of *The Rise of the Dragon: Chinese Investment Flows in the Reform Period* (Chandos, 2008).

argument that China is not so much a country now as it is a culture, or in his words, “a civilization.” Its ability to assimilate and change the cultures with which it comes in contact is the key characteristic of its existence as a uniquely complex nation with a long, multifaceted evolutionary path.

This emphasis on cultural impact is something that is often overlooked. Outsiders view China as doing very well because it plays by economic rules generated by the developed world. But at a deeper level, China’s integral feature—its strong cultural self-identification—has remained unaltered. Perhaps it is this that makes the border issues so problematic. Ethnic minority populations such as the Uighurs, Mongolians and Tibetans sense they are being drawn into a massive assimilative process where they risk losing not only their political or economic rights, but their own cultural identities.

While the title might be interpreted as a celebration of China’s final predicted triumph and modernization, it is far less reassuring on another level. Mr. Jacques sees enormous ambition in China’s development. Such ambition stretches far beyond economic and political triumph into something deeper—a cultural model, an attitude toward the world, a “world view” that will come to assimilate and dominate, post modernity.

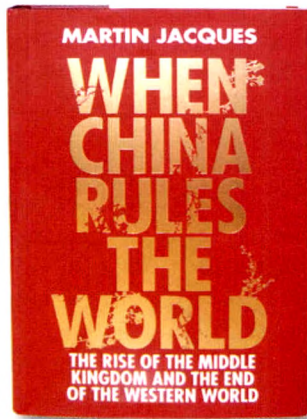
Drawing on the work of Frank Dikotter, an academic, Mr. Jacques devotes a lengthy section of his work to Chinese views of race. Race as a term came late to the Chinese vocabulary, but there was a rich and very controversial debate about race throughout the early part of the 20th century. The People’s Republic of China was established as a “multiethnic” state, but the attitudes toward other races in the press as well as

popular and official discourse were often brutally hierarchical. This is an issue of great sensitivity, but one which Mr. Jacques had to address himself when his Indian-born wife died tragically in a Hong Kong hospital in the 1990s due to what appeared to be deliberate neglect by authorities.

Moreover, China’s relations with Africa are now given great importance, though the impression lingers that relations are conducted within a master-servant framework where the Chinese take the upper position. No country is entirely immune from the mouthpieces of crude racial supremacy—witness the election in May of two extreme right politicians from the British National Party to the European Parliament—but Mr. Jacques sees Chinese “supremism” as something that is written deep in the genes of the whole “civilizing” mission in which China is currently engaged.

There is another interpretation for all this. While Mr. Jacques produces plenty of evidence from visits made to China and reading done on the subject, the alternative is simply that the sense of Chinese-ness he describes looks so strong and is shrilly declared by its main exponents largely because at heart it is weak and vulnerable. China’s sense of nationhood was deeply traumatized by its encounters with the main agents of modernity from the mid-19th century onwards. Maoism was able to deliver a temporary sense of unity and strength; combined with economic development, the two gave China the brittle confidence we see today.

Is China really creating an exportable cultural model, something that will seep into the rest of the world and change us just as American cultural and economic models have? Beyond its most immediate bor-



ders, it is hard to see this. While it is good to have a warning about how we might interpret China's ambitions, it is just as well to realize that far from being a domineering force ready to change our world, China is deeply dependent on outside forces and suffers from profound fault lines.

Though we may all slowly be turning Chinese, it is just as likely that we may be brought down by the collapse of the Chinese model, a concept built on wishful thinking, speculation and fantasy. We will know the outcome within the next decade or so. In the meantime, reading this book is good preparation for that.

**PILGRIMAGES: MEMORIES OF
COLONIAL MACAU AND HONG KONG**

by Maria N. Ng
Hong Kong University Press,
144 pages, \$29.95

Reviewed by JILLIAN MELCHIOR

HONG KONG EMBRACED globalization under colonialism, and those who grew up in the fray experienced a melding of Chinese heritage and Western pop culture. Maria N. Ng, associate professor of English at the University of Lethbridge in Canada, documents this phenomenon, telling the story of her childhood and young adulthood. Born in Macau and raised primarily in Hong Kong, she offers an uncommon view of colonialism, a "borderland existence both geographically and metaphorically," as she puts it.

Ms. Ng's memoir reveals a girl who clung to Western culture as liberation from the limits imposed on women by

family expectations and Chinese culture. "I am forcibly struck by the irony that a postcolonialist should find herself indulging in a nostalgic journey to a lost colonial past," she acknowledges.

Ms. Ng, like many others, grew accustomed to Western culture through her education. She affectionately remembers her time at Maryknolls Sisters' School, particularly admiring the nuns—strong, independent women whom she wished to emulate. Ms. Ng also spends long passages detailing how English literature shaped her views. She says her colonial education provided her with a first glimpse of an alternative to her native patriarchal, even oppressive, Confucian society. Exposure did not make life easy though.

"I can quite see, as an adult, that of course my mother could not explain to me the contradictions in my upbringing," she writes. "I must be proud of my Chinese heritage; but I must learn to think like a Westerner. ... I could imbibe the ideologies of the Catholic Church and American democracy; but I must always honor the Confucianist ethos. Even now, I can find life confusing."

When Ms. Ng sticks to story-telling, her writing is insightful. Personal stories, often centered around her family, serve as metaphors for broader themes of converging and conflicting cultures. For example, Ms. Ng remembers her first expatriate boyfriend, a man named Richard. He embodied the seductiveness of foreign culture for her. The romance began when the BBC office in the Hong Kong invited a 17-year-old Ms. Ng to read two of her poems on air. "Very Eliot," Richard, who also wrote poetry, whispered to her. Though not yet familiar with the work of either George Eliot or T.S. Eliot, she was instantly infatuated.

In an especially poignant vignette, Ms. Ng recalls when Richard took her to expatriates' social events. "These clubs and

— Ms. Melchior recently completed a Robert L. Bartley Fellowship at The Wall Street Journal Asia.

bars Richard introduced me to were lit in some mysterious amber twilight, where people looked relaxed and thoughtful," she writes. "But in Chinese places, the fluorescent lights were full on, and everyone's wrinkles and worries were evident. Every morsel of food stuck between teeth. Every spot of tea on the tablecloth. I chose the amber twilight." She later speculates that, in her miniskirt and lipstick, she probably looked like a "very inexperienced hooker" on her expat-locale outings.

But the relationship fell apart after she brought Richard home to meet her mother, who rejected him because he was not Chinese. The trauma of the experience still seems ripe in Ms. Ng's mind. When they go their separate ways, he gives her an Oxford dictionary. She remembers the last time she saw him; he was engaged to a tall, blonde Texan.

The book is dominated by such tense family scenes and Ms. Ng's bitterness prevails. These tales reveal an expectation that good Chinese children must respect and obey their parents unconditionally, and they also reveal the stress and resentment that often ensues. These stories also demonstrate the incompatibility between some elements of her parents' Chinese expectations and Ms. Ng's newfound Western ideas. Disagreement with her parents, especially her mother, becomes the central conflict of the book. By offering her own experience as an example, Ms. Ng brings emotion to an otherwise hypothetical discussion about how two cultures interact in the upbringing of a child.

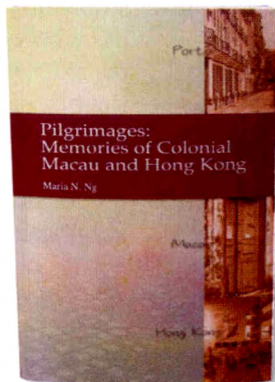
She vividly depicts her father, a sophisticated man who dressed well, read widely and gambled recklessly—a habit that triggered fights in the Ng household. Nevertheless, Ms. Ng mainly faults her mother. "These were acrimonious fights. Shouting

matches, mainly with my mother shouting and my father grumbling defensively. Tears. Doors banging. Cancelled outings because my mother would be sulking," she writes. Hong Kong culture comes through best when she describes her father taking her on adventures in the city, treating her to local cuisine.

At the same time, cultural expectations of a dutiful daughter became more difficult for her to fulfill as her father died of cancer, leaving her, a 16 year old, alone with her mother. As he wasted away, her affection for him seems to disappear. Though she can not successfully comfort him, she has to care for him, "tiptoeing around the apartment, not having any fun, not being allowed to have any time to myself ... so his death, predicted and inevitable, came as a relief to me."

Equally raw is her description of her mother, who grew up in an era when "women internalized the concept that they owed their happiness and well-being to their families and the men in their lives." Because of the cultural subjugation of women like her mother, Ms. Ng postulates, many became domineering and manipulative in a last-ditch attempt to regain some power over their own fates.

The cultural conflict is most intense in Ms. Ng's agony over how to portray her mother. Her writing becomes self-conscious and guilty. It would never be considered appropriate for a good Chinese daughter to write the way she does about her family, she tells the reader, but Ms. Ng's defense of her actions borderlines obsessive, with the same arguments and fears rehearsed a few too many times. Often Ms. Ng resorts to academic explanations. She claims to position herself as an outsider, examining the mother-daughter relationship in a cultural context. But at times it becomes doubtful



whether the conflict is truly cultural. She does not succeed in the objective, detached portrayal she attempts. The result is both ugly and interesting.

So total is Ms. Ng's rejection of her parents' heritage that she also abandons the traditional, chronological narrative structure in her book, "a pattern ... that privileges a male tradition of telling one's story, a tradition that promises a logical resolution to the puzzlement of existence." But the chaotic structure she adopts detracts from the cohesiveness of the book. Stories are told without any particular order, and even more disruptive is the random insertion of an imaginary conversation with Vasco da Gama.

If anything, the book's title is deceptive. True, Hong Kong and Macau are an essential setting. But Ms. Ng offers a coming-of-age story that has wider relevance in helping to understand the difficulties that can arise from a multicultural childhood.

**POORLY MADE IN CHINA: AN INSIDER'S
ACCOUNT OF THE TACTICS BEHIND
CHINA'S PRODUCTION GAME**

by Paul Midler

Wiley, 256 pages, \$24.95

Reviewed by APRIL RABKIN

PAUL MIDLER OPENS by writing about his experience as a consultant for a foreign company trying to contract with a Chinese supplier for three varieties of bubble bath: Galaxy Grape, Crazy Cherry and Bursting Bubblegum. From that unassuming start, he comes closer than any author to explaining the dysfunctional business culture behind such deadly product scandals as infant formula being poisoned with melamine.

Ms. Rabkin is a journalist based in Beijing.

At the bubble bath factory in Guangdong, the business relationship with the producer boils down to a cat-and-mouse game, in which the factory owner—whom Mr. Midler calls "Sister"—seems unembarrassed to be caught lying, cutting corners and counterfeiting, all of which she considers simply part of the normal repertoire of business skills.

Her shenanigans quickly turn from funny to serious. By the end, the author is so disillusioned that he stops using soap. "Working in manufacturing has caused me to lose faith," he writes. "Despite all of the lip service that Chinese manufacturers gave about the value of relationships, there was no guiding principle in these arrangements, except the principle of situational leverage." The Wharton graduate eventually comes down against the naive optimism that caused neoliberal American politicians to abandon their principles, from product safety to human rights, in the cause of building China into a juggernaut of international trade.

Chinese manufacturers' main tactic for increasing profits is "quality fade." This is the incremental, almost imperceptible degradation of a product by reducing the quality and quantity of raw material inputs. The product starts out built to specifications, but the longer the relationship continues, the more creative are the ways the manufacturer finds to cut costs. The bubble-bath maker uses cheaper cardboard boxes that collapse, leaving the warehouse floor in the United States covered in liquid soap. Plastic bottles are gradually thinned until they shatter when dropped. Scrimping on an obscure chemical component means the shampoo that was meant to flow out of the bottle has to be squeezed out in globs.

Another frustration is last-minute price increases. The exporter cannot go back to a drugstore chain's panel of buyers to renegotiate prices after signing. So if

the factory announces a price increase at the last minute, the move nibbles away at the exporter's profit margin. The practice isn't new, Mr. Midler finds. In 1965, Lisa Hobbs, an Australian newspaper reporter, wrote that the day before the Canton Fair opened, the government sent telegrams to every foreign buyer to announce a flat price increase of 20% on all products compared to the previous year.

Mr. Midler compares his predicament to getting picked up at the airport late at night by a cab driver who says the ride will cost \$20. Halfway to the destination, he changes the price to \$30. By this time, it is too late to get out and find another cab, so the traveler faces a dilemma: give in and pay extra, get out and stand on the roadside in the dark or agree to a higher price but only pass the driver \$20 at the end. At which point the driver, who cares about the extra \$10 more than the traveler, could call the police and win the argument on his own turf and his own language.

Factory owners are sometimes blatantly dishonest with him from the start. They fake entire showrooms full of products filched from other peoples' factories. In his first tour of Sister's factory, the place is humming like a beehive, with the workers in white lab coats pumping product into bottles. Later that afternoon he returns to find it empty. The productivity was all a show.

At one point, Mr. Midler follows a truck out of the factory to a warehouse across town where he discovers a counterfeiting operation consisting of applying the American drugstore labels onto bottles to be shipped to other countries. This is one form of counterfeiting that allows prices at Walmart, for example, to stay lower than

anywhere else in the world. Factories contract with American exporters at a minuscule or zero profit margin in order to build up their business. Then they produce extra, sell it out the back door to less developed economies at double or triple the price.

As to the "No animal testing" logo, Mr. Midler writes, "It was truthful. We didn't conduct any tests on animals. Then again, we didn't do any other testing either." Exporters could hardly detect all of the cut corners before shipping orders, much less anticipate every potential chemical substitution. With each test costing \$200, merely

"Corner cutting" is too benign a phrase to describe new inventions to get past quality assurance tests and defraud buyers.

checking for five different chemicals could wipe out half of the profit. Testing laboratories often colluded with factories to help samples pass, rendering the expense useless anyway. "We were eventually reduced to begging

in order to have our products made properly," Mr. Midler writes.

Mattel, the toy giant, apologized to the Chinese government after recalling toys with lead paint. In that case, Mattel had a 15-year relationship with its supplier which was run by an industrialist said to be worth \$1.1 billion. This is one more example of how supplier relationships often worsened over time. Bored by success, he says, such industrialists keep looking for ways to prove they are clever.

As to the counterargument that the United States and Japan cut corners just as ruthlessly during their industrializations, Mr. Midler points out that "corner cutting" is too benign a phrase to describe new inventions to get past quality assurance tests by third-party laboratories. Such was the case with melamine added to milk by Sanlu dairies under a joint-venture with New Zealand's Fonterra.

The book could be dismissed as an

extended apology for American companies selling defective and poisonous goods that happen to be made in China. It would be easy to chalk up the soured relationships and quality fade to culture clashes, or blame Mr. Midler himself for never figuring out how to hold his ground in Guangdong. You could also argue that factory owners simply care less about consumers oceans away, who remain nameless and faceless, than about their fellow countrymen.

But as we saw a year ago when the milk scandal was finally made public, quality fade has had catastrophic consequences for Chinese companies to, and it extends to products meant for the most vulnerable consumers in the domestic market. For years, dairies poisoned infant formula fed to their neighbors' children without any whistleblowers coming forward. No one has suffered more from quality fade than the Chinese people themselves.

WE SHALL SUFFER THERE:

HONG KONG'S

DEFENDERS IMPRISONED, 1942-45

by Tony Banham

Hong Kong University Press

354 pages, \$59.50

Reviewed by JASON WORDIE

HONG KONG'S UNSUCCESSFUL defense against the Japanese and the years of occupation that followed have provided a rich trove of source materials for successive generations of researchers. Several decades have passed since the Japanese invasion of China in 1937 and the outbreak of wider conflict in the Pacific in 1941, yet awareness of the war years seems to grow stronger with the passage of time. More publications, of widely varying quality, appear every year.

This level of sustained interest is all the more remarkable given Hong Kong's small size and its relative insignificance within the context of the rest of the Pacific War. The Malayan campaign that led to the capture of Singapore lasted over three months, while Hong Kong fell in less than three weeks. Serious scholarship on this period in Hong Kong—like many other worthwhile aspects of local heritage—largely remains the preserve of enthusiastic amateur researchers who usually work within shoe-string private budgets amid official indifference to this period in Hong Kong's past. Tony Banham, an Englishman who has studied various aspects related to the Hong Kong war years for almost two decades, is one of the most prolific independent scholars engaged in this field.

Mr. Banham's previous books have successfully detailed the invasion of Hong Kong from the Allied point of view and the fate of the Lisbon Maru, a prisoner-of-war transport ship from Hong Kong bound for Japan that was sunk by an American submarine off the China coast. His latest work follows a similar organizational pattern to the others. A rigorous chronology of events is substituted for a broader narrative structure, and quotations from those who were present at the time are allowed to tell the story as it unfolds. Some of these extracts are drawn from postwar memoirs, either published or in manuscript form, while others are extracted from contemporary diaries. This combination allows the story to be told, as Mr. Banham states, "not in my words, but in theirs," and provides an excellent reference framework for future researchers.

In his preface Mr. Banham recognizes that the four main themes of a work on internment are "hunger, boredom, disease

Mr. Wordie is a historian and author with a particular interest in Hong Kong and Macau. He has lived in Hong Kong for many years.

and death.” Combined, these factors would generate a dull book. He was right. Given his chosen methodology, the minutiae of details of food, or its absence, and a continuous roll-call of deaths overwhelmingly predominates, as these were the details that internees recorded. In consequence, the broader picture of internment life vanishes into a ghastly litany of short rations, bashings, and needless deaths. Perhaps Mr. Banham’s intention—at least in part—was to punch home the constant reality of hunger, brutality and disease to a modern audience made blasé by peace and plenty. But while his determination to document and bear witness to the ultimate fate of every single prisoner-of-war is admirable, the routine, everyday awfulness steadily overwhelms, and after a hundred pages or so, the reader starts to shut down emotionally.

Today there is a dwindling number of survivors who remember those years as adults. The recent deaths of the very last known World War I veterans have made minor headlines, and the next decade or so will close the book on those involved in the Pacific conflict. Mr. Banham’s intensive preoccupation with prisoner-of-war deaths and its many causes anticipates the eventual end of this era. He writes, “One day, only one will be left. The one thing he believed would be a talking point for his whole life—the defense of Hong Kong with some 14,000 colleagues and many others present—will suddenly, shockingly, become a monologue. In silence he will sit alone, contemplating for the last time the fate of all his fallen comrades.”

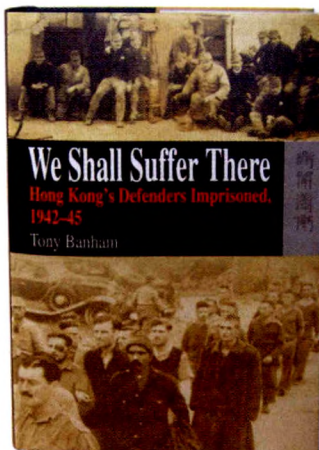
While the principal focus of this book is Hong Kong, some comparative reference to other prisoner-of-war camps run

by the Japanese elsewhere in the Far East would have provided a helpful general overview. To most people alive today, all were versions of the Thailand-Burma Death Railway jungle camps cinematically mythologized by *The Bridge on the River Kwai*. But without some wider context, most nonspecialist contemporary readers will be unable to distinguish between the truly grim places where very few prisoners

survived, such as the “cholera camps” in Thailand and the “death marches” in Borneo, and those locations where conditions were relatively adequate, such as Changi in Singapore and Shamshuipo and Stanley in Hong Kong.

Everyday experiences for Hong Kong’s military prisoners-of-war and civilian internees differed dramatically, but are combined here with interesting effect. Without question

Stanley was one of the better internment camps in the Far East; it was situated in a healthy location next to the sea, rather than a malarial swamp; it was not sex-segregated, unlike many others, which meant that family units remained intact; buildings were of modern construction and in reasonable repair; facilities were adequate—for the first couple of years the camp had running water and electricity; there was no shortage of doctors, nurses and schoolteachers. The living conditions for some internees were clearly better in camp than outside in the city—a number of people actually chose to be interned when they didn’t have to be there at all. In the memories of those who were there, Stanley’s worst aspects were gross overcrowding, the consequent loss of any privacy, and a poor, monotonous and as the years went on, increasingly scanty diet.



In 1942 and 1943, some thousands of military prisoners-of-war from Hong Kong were transported to Japan. These men were dispersed into camps right across the country, from the outskirts of Hiroshima to Hokkaido, and put to work as laborers in mines, factories and on the docks. Tracking their whereabouts and ultimate fates remains one of the major detective feats of this work, and adds a significant dimension to the Hong Kong prisoner-of-war experience that stretches far beyond the colony itself.

Extensive endnotes provide further rich sources of information, and the bibliography—one of the most comprehensive yet compiled on the subject—will provide months of rewarding reading for those who want to explore Mr. Banham's source materials first-hand.

THE IDEA OF JUSTICE

by Amartya Sen

Allen Lane, 496 pages, £25.00

Reviewed by SYLVIA HUI

LAUNCHING HIS NEW book at a London lecture, Amartya Sen, the philosopher and Nobel-winning economist, asked the audience to consider a story in which three children are fighting for one flute. One child made the flute, another is the only one who knows how to play it, and the third is so poor he has no other toys to play with. How should one decide who gets the flute? It's a difficult decision because all three claims are supported by different but arguably equally valid types of reasoning. But which is best?

The central argument of this book is not only that it may be impossible to agree on

a best solution in some circumstances, but that we don't have to. In approaching the question of justice, we need not begin by asking "What is a just society?" Rather than speculating about a utopia and focusing on an overarching set of institutions that can achieve this, we need a theory of justice that can tell us how to compare alternative principles and relate them to lives people actually lead.

Mr. Sen insists we need a radical departure from a dominant tradition of philosophizing about justice—represented by John Locke and Immanuel Kant, and taken up by John Rawls—that draws on a hypothetical social contract and concentrates on pursuing perfectly just institutions and rules. In naming his book *The Idea of Justice*, Mr. Sen, who is hugely influenced by Rawls, not only references the political philosopher's seminal 1971 *A Theory of Justice* but suggests that it is time to rethink our existing theories of justice.

Mr. Sen's alternative approach proposes that democracy—public reasoning—is the crucial tool we need in order to bring the idea of justice to a practical, realizable level. In the process of public reasoning we can agree to disagree; only then can all competing principles be given a status. This would establish a starting point from which we might proceed to reason on ways to remove injustices. That emphasis on public reasoning may not remind one so much of Rawls but of the discourse politics of Jurgen Habermas, a German theorist who has not been significantly linked with Mr. Sen's work before.

Born in West Bengal, India, into great poverty, Mr. Sen has maintained a lifelong interest in welfare economics; for example, he has worked with Martha Nussbaum on human development for the United Nations. Those who know Mr. Sen's influential work in the field will recognize that his aversion to focusing on institutions and his repeated assertions that

Ms. Hui is a free-lance journalist and editor for the AP in London.

"people are, by and large, able to reason, scrutinize their own decisions and those of others," are consistent with his abiding concern for realizing human capabilities, rights and freedoms. Admirers of Mr. Sen's humanism will be pleased to find that his new book tackles its weighty and theoretical subject in the same way he has written about measuring development and eliminating poverty: namely, that justice should not be built upon a castle of formulas in the sky, but should instead focus on enabling individuals to choose their own life paths without impediment. We don't need to agree on a theory of a perfectly just society to recognize that it is unjust to deprive a woman in a remote Indian village of basic education if that is what she wants.

The Idea of Justice is an accessible and wide-ranging book, blending together ethics, human rights, rational choice theory and many other subjects with remarkable ease. Its persistent defense of human rationality (as something more valuable than the sole maximization of self-interest that "rational choice theory" allows) is an important addition to an economics that these days is often seen to be morally bankrupt.

Yet for some, Mr. Sen's optimistic belief in the ability of all human beings to reason together to improve society will be problematic and impractical. The pragmatic (and/or anti-Enlightenment) reader will be particularly skeptical because compared to his predecessors, Mr. Sen pointedly emphasizes discussing justice in the context of globalization, taking the subject to the realm of international relations and justice across borders. In his lecture Mr. Sen asserts that "global justice is not beyond our reach." Citing the end to apart-

Rather than speculating about utopia, we need a theory of justice that can tell us how to compare alternative principles.

heid in South Africa as an example, he says resolutions to long-standing injustices are possible if people are willing to engage in debate. Indeed, for Mr. Sen, what's important is this public engagement.

However, it's not clear that such engagement will take care of things afterwards. As the book's preface makes clear, the volume aims to provide a broad base from which to approach questions relating to removing injustice. Readers expecting prescribed solutions will not find them here.

Mr. Sen picks up on the story of the three children and the flute again toward the end. He concludes that even if there is an impasse in making a decision, the competing criteria will yield a useful partial ranking of alternatives. That, he appears to say, may sometimes be the best we can hope for.

Can people around the world reach some kind of agreed reasoning about the justness of an honor killing or the stoning of an adulterous woman? What about the question of what we owe to distant, impoverished peoples? Mr. Sen invokes Adam Smith's "impartial spectator" and writes that people in China, for example, may take into account the relevance of foreign scrutiny to judge the value of capital punishment.

Even if we accept that it is valuable to consider competing claims of impartial reasoning—and despite Mr. Sen's argument that listening to distant voices does not imply that we need to accept all such proposals—it is dangerously close to sliding into relativism. If, as Mr. Sen argues, a perfect ideal of justice cannot serve as a guide for comparing the "nonbests" against each other, can public reasoning really provide those criteria? ■

THE POOR MAN'S RAILWAY

by Stephen Kurczy

RIDING ON ONE of Cambodia's "bamboo trains" is the closest thing this impoverished nation offers for a rollercoaster ride, but it's loads more fun than any hokey theme park attraction.

Equipped with a five-horsepower engine, the square, jury-rigged cart covered in bamboo mats hurtles over the rails near Battambang at up to 50 kilometers per hour—three times the average speed of Cambodia's freight trains. As the vehicle wobbles back and forth atop metal wheels made from the gears of old bulldozers and army tanks, Cambodian passengers sit back for the commute while foreigners smile and enjoy the wind in their hair.

I look down and notice that some of the tracks' slippers—the supports beneath the tracks—are missing, leaving dips in the rails that bounce our cart into the air. Fortunately the train drivers are experienced, and they claim derailments are rare.

Despite the periodic jolts and jumps, I manage to relax and take in the scenery. Dogs and chickens wander across the rails, and old men sit on the tracks drinking Angkor Beer. Rice fields extend on either side of the line, dotted with farmers up to their knees in fertile mud.

This track, opened in the 1930s, may be in disrepair, but it is still in better condition than the newer section south of Phnom Penh, which opened in the '60s. Because neither route sees more than one real train per week, bamboo trains rule the rails.

However, this could start to change soon. In June, eight countries agreed to build a Trans-Asian Railway Network connecting China and Southeast Asia. The preferred route from Singapore to Kunming runs through Cambodia—while it is at least 700 kilometers longer than going through Burma and Laos, it is missing the least amount of track. The United Nations Economic and Social Commission for Asia and the Pacific, which is spearheading the plans, says this is the cheapest option at an estimated cost of \$900 million.

Impoverished Cambodia desperately needs the infrastructure upgrade, which officials predict will increase foreign investment in cement and garment factories along the railroad. Rail transport is cheaper than road travel and also mitigates damage from overloaded trucks. Barry Cable, transport director of UNESCAP, says that easing the strain on Cambodia's roads, some of the world's worst, would not only boost economic development but also reduce energy consumption and improve cargo security. Because of Cambodia's deteriorating tracks, passenger service stopped more than a year ago, and freight usage has decreased dramatically in the last few years, according to Ouk Ourk, deputy director of the national rail company Royal Railways of Cambodia.

To fill the gap, hundreds of bamboo train operators now transport rice, livestock and people. The trains first appeared after the fall of the Khmer Rouge in 1979, a period that left the country's economy

∞ *Mr. Kurczy is a free-lance writer formerly based in Phnom Penh.*

and infrastructure in shambles. Technically, bamboo trains are illegal, Mr. Ourk says, “but we can’t stop it. People are very poor, and there is no other transportation because we don’t have a train.”

According to the Asian Development Bank, the current rehabilitation project will affect more than 1,100 families and “permanently deprive 189...‘bamboo rail’ transport operators of their source of livelihood.” The organization is setting aside \$5 million to \$10 million to compensate displaced families and bamboo train drivers.

Those whose livelihoods depend on the bamboo trains remain wary, however. Lay Pho, a 36-year-old farmer, commutes to market on the bamboo train because his rice field is 10 kilometers from the nearest paved road. “Without the bamboo train, I will have to get a tractor to bring my rice to the road,” Mr. Pho says.

The makeshift trains have also become a tourist attraction of sorts. O Dambong is one starting point for a pleasure trip on the rails, with most hotels and guides in Battambang advertising a 20-kilometer outing for \$8. For that price, a group of friends share a platform the size of a ping-pong table. On a typical Sunday the railway line bustles with tourists.

“A bamboo train is something unique,” says Vanessa Gilles, a 23-year-old French citizen working in Cambodia, as she explains why she convinced three companions to join her for a ride. “Where else can you ride one?”

Thirty years of civil war, neglect and mismanagement have left some areas without even the services of bamboo

trains. A 48-kilometer stretch of rails from the border town of Poipet to Siso-phon disappeared sometime between 1975 and 1985—no officials could explain where they went. In 2006, the Malaysian government donated enough tracks to fill this gap, but they remain stacked in a Cambodian warehouse.

Now, a growing stream of foreign aid and investment promises to rehabilitate the outdated network. Toll Group, an Australian company, signed an agreement in

July to manage the railways through a 30-year concession with a local minority partner, the Royal Group. TSO, a French company, is almost finished with a four-year engineering assessment and rehabilitation design.

Meanwhile, a Chinese firm has be-

gun a \$2.6 million feasibility study on a 390-kilometer line from Phnom Penh to Vietnam’s existing railway.

“Investors and policy makers will be waiting to see how much traffic the newly reconnected line between Thailand and Cambodia manages to capture,” says Mr. Cable of UNESCO. “If it’s substantial, everyone will go back and look carefully at Cambodia for the last leg of completion,” he adds, referring to the proposed line from Phnom Penh to Vietnam.

A Singapore to Kunming line remains at least a decade away, Mr. Cable says, because of the difficulty and expense of building a railway from Phnom Penh to Vietnam, which would require new bridges over the massive Tonle Sap and Mekong rivers. On the other hand, Ly Borin, deputy director general of Royal Railways of Cambodia, claims the route will be com-



Vive Armstrong of New Zealand admires the Cambodian landscape as she takes a ride at the front of a bamboo train in Battambang in August.

ARANTXA CEBILLO

plete by 2015, though he admits no financiers have yet stepped forward.

Cambodians have long expressed hope and made grandiose promises about their railway, and it is difficult to distinguish between fact and conjecture. In 2004, officials announced the start of the rehabilitation project construction. Officials said in 2006 that construction of the Thai link would be complete by early 2008, but mine clearance and emergency repairs did not begin until March 2008. Track construction is scheduled to start in November 2009, and according to the Asian Development Bank, the current predicted completion date is March 2013.

Benoit Bouanchaud, TSO's site manager for the northern section, says the new line from the border town of Poipet to Sisophon, where Cambodia's line currently ends, could open as soon as March 2010. Starting in November, he says, "my target is to lay one kilometer of track per day."

Delays also stem from 18 months of negotiations between Toll Group and the Cambodian government before they signed a management agreement in June 2009. This agreement is still contingent on donors committing all \$148 million dollars of rehabilitation funding, government consultant Paul Power says. Mr. Power also serves as ADB's team leader for the Cambodian railway's rehabilitation. Of this amount, \$73 million in funding is finalized, with commitment of \$42 million from the Asian Development Bank, \$13 million from OPEC, \$2.8 million worth of railway tracks from Malaysia, and \$15.2 million from the Cambodian government. The second, yet-finalized portion of the funding totals \$74.8

million, according to Mr. Power, and proposed donors include the Australian government's overseas aid program, ADB and the Cambodian government.

Toll Group's 30-year management concession includes an agreement to pay \$75 million to the Cambodian government in fixed fees over the first 20 years, plus an estimated \$75 million in variable fees over the second 20 years, according to Mr. Power. Toll Group collects all railway revenues,

but the company must also invest in any new locomotives, cars, facilities and upgrades.

Mr. Bouanchaud, TSO's site manager, has rehabilitated tracks in Bangladesh and Algeria, but neither compare to the decay of Cambo-

dia's rails. "For the past 20 years the track has not been maintained. It is the worst that I have ever seen," he complains.

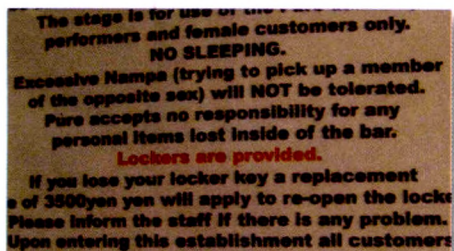
For the northern section alone, 400 bridges need to be reconstructed, and 30,000 slippers and 20 kilometers of track are either missing or rusted beyond repair. According to Mr. Bouanchaud, if no action were taken to remediate the problem within two or three years, the railway would become defunct.

Ironically, bamboo trains will help bring about their own demise. Mr. Bouanchaud plans to purchase 20 of the trains, since they remain the best way to get men and material to the work sites. What's more, they are highly economical: Each train costs about \$450 and can carry up to eight tons of material. And the drivers' local knowledge will come in handy too. "[The operators are] really professional—they know every kilometer of the track," Mr. Bouanchaud says. "No one can drive the bamboo train like them." ■

Due to deteriorating tracks, passenger service stopped more than a year ago, and freight service has decreased significantly.

Go Easy on 'Nampa'

A CLUB IN Tokyo's Shibuya district posted some strict rules. "No sleeping" TT can understand, though this would not seem to be a problem in a noisy club. But the prohibition on "excessive *nampa*" is harder to fathom, since *nampa* generally means hitting on girls. Would lame pick-up lines count as excessive?



Can't Sleep, Bed's on Fire

THOUGH THE STATISTICS say the economy is booming again, the touts are more desperate than ever in northwest China. Arriving at the train station in Jiayuguan, a neon boomtown of casinos and hourly-rate hotels outside the last outpost of the Great Wall in Gansu, TT found the least pushy cabby amidst the scrum and gave him the name of a hotel.

Turning a corner near the town center, a two-alarm fire came into view, with firefighters escorting patrons out of a KTV and hotel complex. Not fazed, the driver pulled up in front, briefly blocking a fire truck. "This hotel is much cleaner than the one you asked for," he motioned. "But it's on fire," a startled TT replied. "Yes, but it's much cleaner, and it's in a safe area." After five minutes of haggling, the driver was finally convinced to continue to a different hotel—one he didn't have an agreement with. Needless to say, it was clean and safe, and wasn't going up in flames.

Speak Gooder English

THE HONG KONG government is concerned at the deteriorating level of written and spoken English in the territory, so it set up a new organization to improve English in the workplace: the Standing Committee on Language Education and Research. The name was evidently selected in order to give it a catchy acronym, but unfortunately its spelling is emblematic of the problem it is supposed to solve: SCOLAR.

Transiting the Media-Free Zone

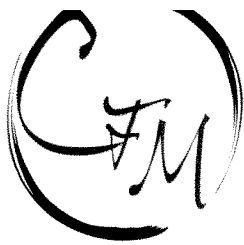
ANOTHER SMALL DATA point showing China's ongoing crackdown on the media: authorities in the Beijing airport have apparently issued a ukase forbidding airlines from supplying foreign newspapers in their business-class lounges, as the snap below from the Air France lounge shows.



Cambodia's Dog Day Afternoon

TWITTER FINALLY HAS real appeal. The service now boasts the best read in Asian newspapering: The Phnom Penh Post's "police blotter" column. The crime-beat feature got off to a running start with an item about a bodyguard mauled to death by four vicious dogs. The follow-up: Three of the four dogs were drowned by police and sold to a dog soup restaurant for \$90. There is justice in the world.

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Which Way Up for Asia?

by Brian F. Klein

An investor monitors screens showing the stock index at a trading house in Shanghai, Aug. 17.

Divining the future prosperity of Asia through tortoise shells and tea leaves of the past or market indices of the present yield equally questionable results. Talk of an Asia-led global recovery, based principally on stock-market performance and a very modest uptick in exports to China, overstates the effects of stimulus spending and the as yet unsorted restructuring challenges ahead for most of the export-oriented region.

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REVIEW Editor Hugo Restall talked about the anniversary of the June 4 massacre with Bao Pu, editor of Zhao Ziyang's memoirs, "Prisoner of the State."

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Team Obama should not end sanctions until the junta releases all political prisoners.

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RECENT ESSAYS & REVIEWS

Korea's Champion of Democracy By Michael Green

I first met Kim Dae-jung in 1985 when he returned from an enforced exile in America. A brilliant and thoughtful man, GJ articulated the moral and practical aspirations for democracy in a country where, even today, sophisticated political discourse is lacking. At the dining table in his home in the Seoul district of Donggug-dong, he conjured a vision of democracy, achieved with fair means, without revenge, with policies that honored civil rights and created a fair playing field for business, and that prepared the ground for a civilized republicanism with North Korea.

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Rethinking Pyongyang

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OCTOBER 2009

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China's Political Feet of Clay

Willy Lam **PAGE 10**

New Power May Not Bring China Security

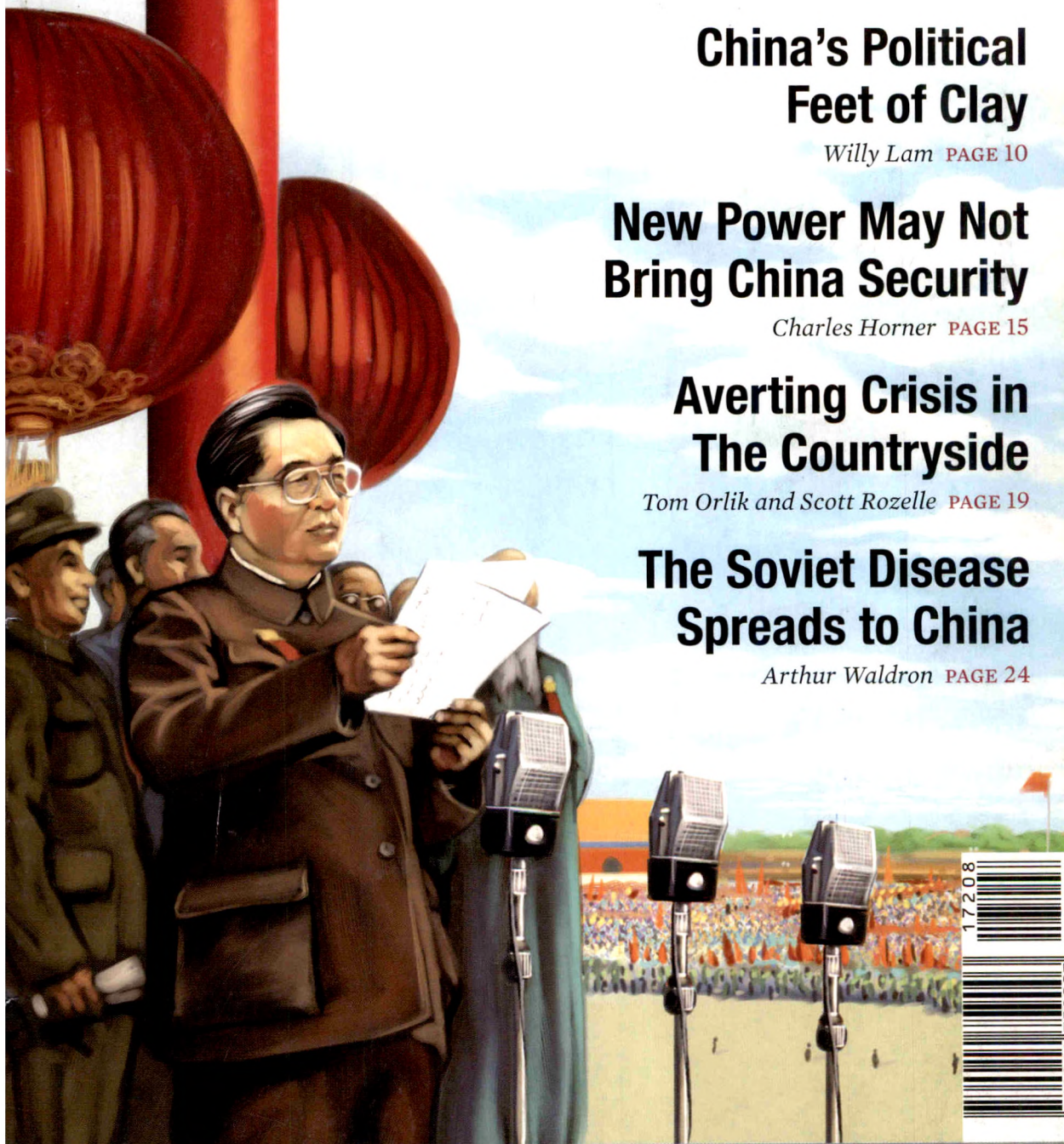
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The Soviet Disease Spreads to China

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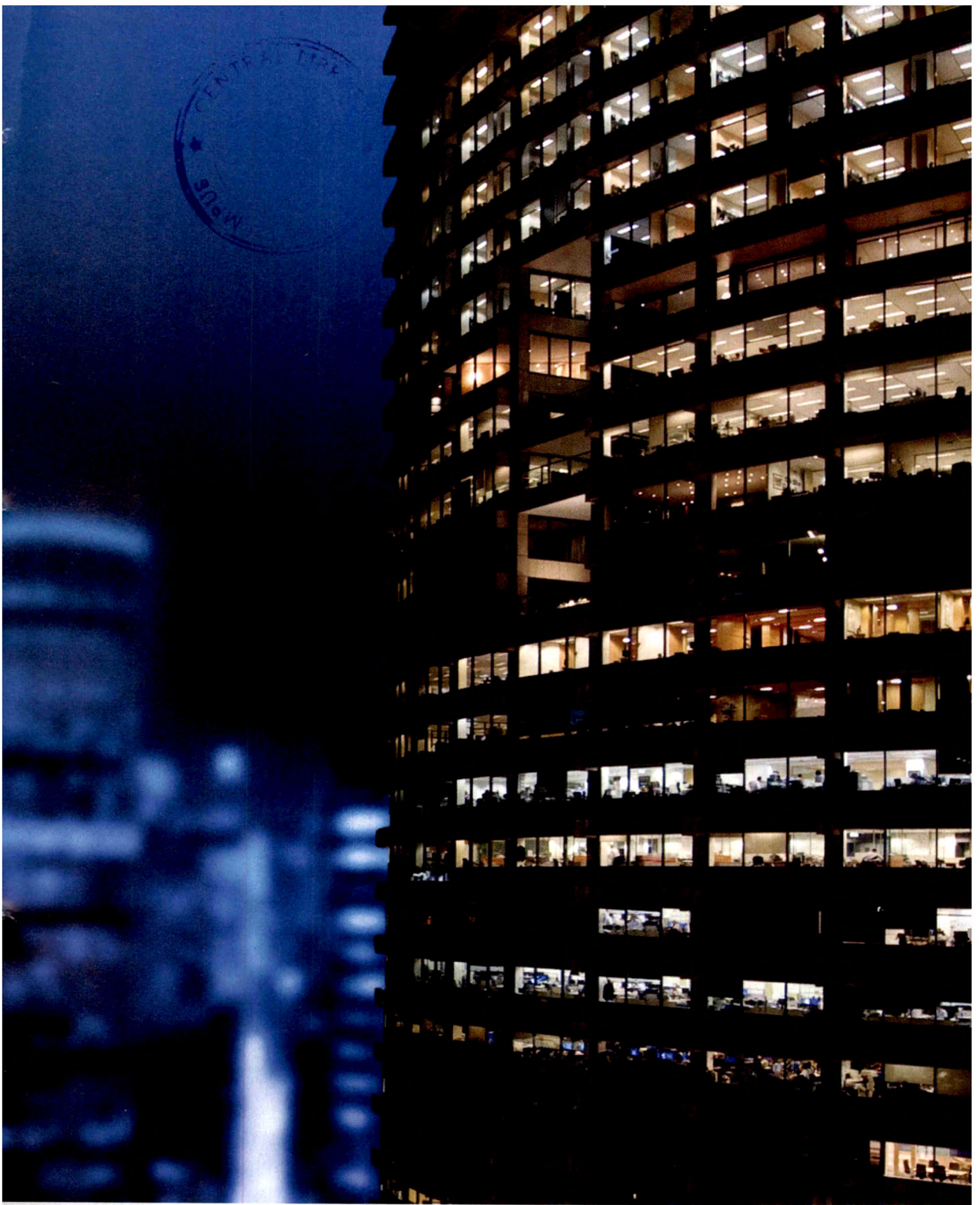
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What's the next move for China?

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TEN YEARS AGO, as the People's Republic of China was celebrating its 50th anniversary, senior Communist Party intellectual Li Shenzhi penned a classic essay "50 Years of Storms and Disturbances." The piece attacked the Party for staging a lavish, self-congratulatory parade while "whitewashing" its bloody history. Mr. Li urged then paramount leader Jiang Zemin to begin democratization.

Here we are at the 60th anniversary and little has changed politically. The parade was even bigger, and the population more alienated from the leadership. Liberals within the Party such as top economist Wu Jinglian are warning that the country is heading down the slippery slope to crony capitalism. Meanwhile the Party's response to demands for political change has been to tighten the screws on dissent.

In this issue, Willy Lam, Charles Horner and Arthur Waldron all address the paradox of an apparently strong and successful Party being undermined from within by Soviet-style rot. After the 1989 Tiananmen Square massacre and 1991 collapse of the Soviet Union, conventional wisdom had it that the Party would only manage to stay in power a few more years. The tides of history that swept away the Soviet Union and most of the other communist regimes were just too strong.

However, in the early 1990s Deng Xiaoping managed to thread the needle of speeding up economic reform while putting political reform off limits to debate. As a result, the new conventional wisdom is that Deng's successors are so resilient they can continue to manage the contradictions of authoritarian rule over a market economy.

But what if the original diagnosis was correct, only too early? The Party perhaps benefited from China's early stage of development, making it easier to continue managing societal change. After 20 years, however, China's increasingly complex society looks more and more like an amalgam of pre- and post-1991 Russia.

Pre-1991 in the sense that society is better educated, more affluent and resentful of state infringement on personal rights and freedoms. And post-1991 because the privileged cadre class is increasingly stripping the society's assets, as the state banks again lend massive sums to the state-owned enterprises managed like private fiefdoms by the Party elite. A nascent oligarch class is emerging, organized crime is growing, and the ethnic minorities are growing restless.

Nobody wants to see China follow Russia's chaotic model for post-communist transition. But this possibility is increasingly on the minds of thoughtful Chinese. Hopefully it is on the minds of their leaders too.

H.R.

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LETTERS

Controversial Mother

AQUINO'S EXALTED TO near-sainthood status was a product of the Western media. Her family owned the largest tract of land in the nation. And yet she never instituted truly effective land-reform policies to help the poor and landless. Her family's hacienda has a terrible record of tenant abuse. (At least Fidel Castro distributed his family farm after the revolution). As member of that rarified few (200 plus) oligarch families who still dominate and overwhelm Philippine politics today, she failed to lift the country out of its semifeudal status by challenging her own class and the Catholic Church.

HLC
via FEER.com

No Room for Mistakes

"...MR. NAJIB NEEDS to reconnect with voters. That means systemic reforms that go beyond the half-measures of his predecessor." It would not be entirely surprising if what is in store is yet more ineffectual political opportunism from UMNO, which has been skillful in covering up malfeasance in government ("Najib Walks the Malaysian Tightrope," Essay, September 2009). This time round things are getting tight and could no longer absorb their clumsiness and inefficiencies. Difficult questions ahead, their immovable

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inward-looking clannishness and racial antagonism, a byproduct of their divide-and-rule policies in the past, would effectively limit the room for maneuver for these false reformers.

Duke Togo
via FEER.com

Spare the Rod

THOUGH I SYMPATHIZE with almost everything that Ko Bo Kyi says ("Don't Sell Burma Short," posted July 29, 2009), his list of nonnegotiable conditions which must be fulfilled before the United States and the United Kingdom and European Union make any concessions is self-defeating. "Conditionality" has failed disastrously in U.S.-Cuban relations, and is in the process of being abandoned. Conditionality in U.S.-Burma and U.K./EU-Burma relations is likewise a guarantee that nothing will change, and that the military regime will be entrenched in power. This cannot be what Ko Bo Kyi wants, but this is exactly what has happened since 1988.

We should build instead on the consensus established among all members of the Security Council on Oct. 11, 2007 and seek to open talks with the regime without preconditions. Having the chair of the U.N. Security Council helps, but is not decisive. Russia had the chair in January 2007, but that did not stop the U.S. and Britain sponsoring their resolution in the Council and pushing it to a vote. Daw Suu Kyi is not (currently) married to a foreigner, but she is debarred from being a candidate for the presidency because her two sons are not Burmese citizens.

Derek Tonkin
via FEER.com

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Growth in a Slower-Growth China

Throughout the crisis, China defied recessionary pressures and grew. But the storm is far from over; consumer-products makers and retailers face a more competitive landscape.

Bruno Lannes, Kevin Chong and Mike Booker, SEPT. 30

Life, Death and DDT

The World Health Organization and the U.N. are aiming for a total phase-out of DDT by 2020, but without effective vaccines and antimalarial drugs, this is tantamount to mass murder.

Henry I. Miller, SEPT. 22

Celebrating 60 With Confidence

Chinese history is replete with auspicious dates being marked by pardons. China's 60th anniversary is an ideal opportunity to release prisoners from its overcrowded prison system.

Joshua Rosenzweig, SEPT. 17

Decoupling 2.0?

Economists once argued that growth in emerging markets would someday not rely on the West. But that debate ended abruptly when the U.S. meltdown hit Asia hard. Now, it's back.

Ulrich Volz, SEPT. 16

Leading the Way to a Trade Deal

India helped end the political impasse that stalled the World Trade Organization's Doha Development Round for more than a year. But can anything material can be achieved?

Sudeep Doshi, SEPT. 14

Election Confusion Breeds Chaos

The result of Afghanistan's Aug. 20 presidential vote could not be worse: victory for an incumbent government that will likely be even more corrupt and dysfunctional than before.

Sarah Davison, SEPT. 10

China's Assault on the Rule of Law

In a year full of arbitrary detentions of Chinese legal activists and government critics, the release of Xu Zhiyong was a welcome change, but China's assault on civil society continues.

Sophie Richardson, SEPT. 9

Is the DPJ 'Anticapitalist'?

Some overseas analysts saw the Democratic Party of Japan's victory as a sign of an "anticapitalist" turn in politics. However, the DPJ is hardly the radical party some portray it as.

Tobias Harris, SEPT. 5

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60 YEARS ON

China's Political Feet of Clay

Since 1949, the People's Republic of China has seen significant economic reform and growth, but Beijing is ignoring a key ingredient for future growth: a system of checks and balances.

by Willy Lam



SOMEBODY HAS RAINED on the Chinese Communist Party's parade. In the run-up to Oct. 1, the 60th anniversary of the founding of the People's Republic, China's netizens were enthralled by a 10,000-character essay calling for political reform. As propagandists saturated the media with paeans to the country's economic and technological achievements, this Internet manifesto lamented that "Stalinism is wreaking havoc on [China's] political, ideological and cultural construction."

When China's development seems to be progressing smoothly, why should such an attack on government policy gain so many supporters? The piece has struck a chord because its critique goes to the heart of China's political stagnation. Basic constitutional issues such as the delineation of the functions and jurisdiction of the Party, government, the legislature, the judiciary and the army remain murky, even as the economy develops at break-neck speed.

"The country is still the Party's country," the essay noted, and the Party comes before the state and the people. "There is no differentiation between the Party's and the state's coffers." Moreover, the People's Liberation Army is a "Party army," and not a "state army" as in the rest of the world. The CCP still towers over the legislature, the judiciary and all other institutions.

Despite all its manifold achievements, the CCP's celebrations are overshadowed by its monumental failure to create modern institutions and political systems. Even as the leadership boasts about the "China model" or the "Beijing consensus," the country's fundamental political institutions are in disarray. This is hardly an academic question of interest only to constitutional lawyers and political scientists. Institutional dysfunction underpins problems ranging from corruption and social

Mr. Lam is a professor of China studies at Akita International University, Japan, and adjunct professor of history at Chinese University of Hong Kong.

injustice to the P.R.C.'s failure to embrace globalization.

In a much-noted speech last December, CCP General Secretary and President Hu Jintao vowed that Beijing would never go down the "evil path" of Western-style democracy. But the Party's problems are more than just an aversion to the idea of "one man, one vote." Mr. Hu reiterated that China will continue to spurn global norms such as checks and balances among the executive, legislature and judiciary.

This is why the CCP rides roughshod over the legislature and judicial departments such as the procuratorate (prosecutor's offices) and the courts. The Party's Central Commission on Politics and Legal Affairs, headed by Politburo Standing Committee member Zhou Yongkang, assumes total control over the police, the procuratorate and the courts. The Party's dominance over the judiciary has compromised the integrity of judges and other *zhengfa* ("political and legal") cadres. Because justice can hardly be sought in the courts is a key reason why there are an estimated 100,000 cases of "mass incidents," meaning protests and riots, annually.

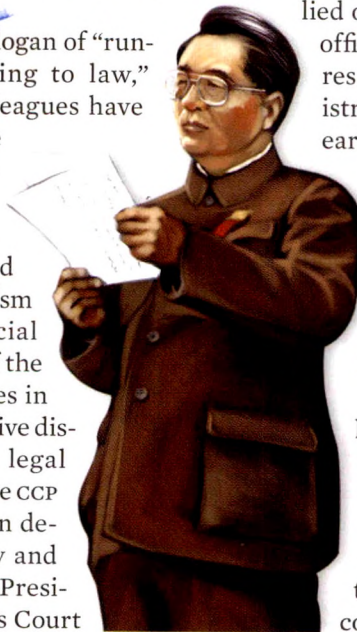
Despite promoting the slogan of "running the country according to law," Messrs. Hu, Zhou and colleagues have heavily politicized the courts, for instance by appointing Party functionaries as senior judges. This reverses a longstanding trend toward greater professionalism in the judiciary. The official press has admitted that half the provincial-level chief justices in China's 31 major administrative districts do not possess any legal background; most of them are CCP apparatchiks who worked in departments dealing with law and order and Party discipline. President of the Supreme People's Court

Wang Shengjun and Minister of Justice Wu Aiying are both veteran Party-affairs specialists who never attended law school.

While such judges may be more ready to toe the Party line, their quality and probity has drastically deteriorated. In the past year, a dozen senior jurists at central and regional levels have been detained for taking bribes and related misdemeanors. They include SPC Vice President Huang Songyou, Executive Director of the Guangdong Higher People's Court Yang Xiancai, Vice President of the Intermediate People's Court of Qingdao Liu Qingfeng, Vice President of the Chongqing Higher People's Court Zhang Tao and Director of the Chongqing Municipal Judicial Bureau Wen Qiang. Several high-ranking members of the bench are being investigated for abetting organized crime. Chongqing's Mr. Wen, a former vice head of the Chongqing police force, allegedly accepted close to 100 million yuan (\$15 million) worth of properties and other advantages from the triads.

The devastating sociopolitical impact of the judicial system's bankruptcy cannot be exaggerated. Citizens who have been bullied or dispossessed by wayward officials can, in theory, take cadres to court by virtue of administrative litigation law. Since the early 2000s, about 100,000 citizens a year file suits against Party and state departments or individual officials. Yet the plaintives' success rate is less than 30%, down from more than 50% in the 1990s.

Many of those who have lost faith in the legal system choose to *shangfang*, or to personally present petitions to authorities in the provincial capital or Beijing. Petitioners, however, are constantly harassed by the po-



lice. In the run-up to the Oct. 1 festivities, tens of thousands of petitioners who usually congregate in Beijing were driven away from the capital. There are indications that many Chinese are losing faith in the system. The suspect who wounded an 82-year-old French tourist shortly before National Day was a shangfang peasant from Jiangxi province who allegedly committed the crime to vent his frustration.

Since their accession to power in late 2002, President Hu and Premier Wen Jiabao have repeatedly emphasized the imperative of eradicating graft. The just-concluded plenary session of the CCP Central Committee vowed that "combating corruption is a major political task, and that measures must be taken to tackle both the symptoms and deep-seated causes." Yet the CCP has run a nationwide anticorruption campaign almost every year since the early 1980s, with little lasting effect.

Institutional drawbacks, however, seem to have doomed such efforts. There are at least three major anticorruption bureaucracies in the polity: the CCP Central Commission on Disciplinary Inspection and its regional branches; the Ministry of Supervision and its sister unit, the National Bureau of Corruption Prevention; and the anticorruption bureaus within national- and local-level procuratorates. None of these organs, however, has any semblance of independence; battling graft is basically a matter of "the Party investigating itself." Thus, cadres and their relatives with political connections are always one step ahead of the investigators.

Given Beijing's failure to grapple with the population's dissatisfaction, the CCP has to rely on brute force to keep so-called "destabilizing forces" at bay. The Tiananmen Square massacre set the precedent for the CCP calling on the PLA and the paramilitary People's Armed Police—whom late patriarch Deng Xiaoping famously called "the loveliest people of them all"—to defend it-

self against the people's wrath. And the unprecedentedly large-scale military parade on Oct. 1 was a show of force aimed as much at the Party's myriad domestic enemies—dissidents as well as Tibetan and Uighur "splittists"—as at China's foreign foes.

Hence the leadership's insistence that, as CMC Vice-Chairman General Guo Boxiong said recently, military personnel "must safeguard the Party's absolute leadership over the defense forces" and "uphold the Party's military theories as scientific guidance for army construction." While the defense forces' fast-increasing budget comes from the taxes and other contributions of 1.3 billion Chinese, the PLA and PAP swear loyalty only to the CCP, whose 76 million members represent about 6% of the population. Since becoming chairman of the policy-setting CCP Central Military Commission in 2004, Mr. Hu has banned all discussions that the PLA might one day be converted from a "Party army" into a normal state army.

Disturbing consequences stem from the fact that the PLA is at the beck and call of only the CCP elite. One organ—the CMC, which consists of 10 senior generals in addition to Chairman Hu—has authority over matters ranging from the deployment to the development of China's formidable war machine. As the CCP increasingly relies upon troops and paramilitary police to maintain domestic law and order, more power has been given to top brass.

Since Mao's days, about 20% of the seats of the CCP Central Committee have been reserved for military personnel. In the past decade, however, the military has garnered a much bigger say in foreign and security policies—on occasions even economic issues. For example, under the doctrine—recently reaffirmed by Mr. Hu—of the "synthesis of [the requirements of] peace and war," new infrastructure projects such as railways, bridges and airports have to be vetted by PLA staff to ensure that facilities

can serve wartime purposes. The relentless expansion of the PLA's clout and the modernization of weaponry is behind the popularity of the "China threat" theory.

While the CCP's poor track record on the political front is relatively well known, the Hu-Wen leadership has generally elicited world-wide admiration for the "Chinese economic miracle." This refers not only to the country's enviable GDP growth rate but also Beijing's apparent success in transforming the Stalinist diktat economy of the 1970s into a market-driven one. State media like to tout the fact that the prices of 98% of commodities and 95% of producer goods are determined by supply and demand.

The reality, however, is that almost 10 years after China's accession to the World Trade Organization, the economy is tightly controlled by about 150 state-owned corporations. These are mammoth monopolies in key areas including oil and gas, steel and other minerals, banking and insurance, telecommunications, transportation, and military and aerospace industries. The CEOs and most members of the board of directors of these firms are appointed by the CCP Organization Department in conjunction with relevant government ministries.

The all-too-visible hand of the Party and state is evidenced by the fact that the great majority of China's recently announced "500 Strongest Enterprises" are state-controlled. And while Beijing likes to boast that these giants raked in \$70 billion more in profits than their American counterparts last year, ordinary citizens have no share of the loot. Much of it enters central coffers, the companies' gargantuan investment funds and the pockets of senior management, who include offspring of top cadres and former ministers. Even ordinary personnel in these firms make four to 10 times more than staff in nonstate companies.

Much worse is the fact that the monopolistic powers of these behemoths have

stunted the private sector's development, which does not even enjoy "national treatment," such as getting certain types of loans from state-held banks. Because the bulk of the 4 trillion yuan (\$586 billion) stimulus package unveiled last November has gone to government-controlled projects, the state sector has been gaining at the expense of private enterprises.

One reason why so many bosses of private companies have in the past year been nabbed for corruption is that they must pay huge bribes to officials in different departments to compensate for their lack of political connections. For instance, Huang Guangyu, the former chairman of Gome Appliances and one of China's richest men, is now under detention for allegedly greasing the palms of cadres in the police, customs and other departments. The two-tier system in China's political economy has exacerbated the polarization between the minority elite and the majority of workers and farmers.

Members of the privileged upper crust include *gaoganzidi*, or sons and daughters of Party and government leaders, who account for a lopsided proportion of the country's super-rich. Last month, four central-level units, namely the Chinese Academy of Sciences and the research wings of the State Council, the Central Party School, and the CCP Department of Propaganda took the unusual step of publicly denying the much-circulated figure that "princelings" account for 90% of China's multimillionaires. But how large a percentage of the aristocracy consists of Party elders' descendents? The four think tanks' refusal to give a specific number buttresses popular belief that senior cadres and their kin subscribe to French King Louis XIV's famous *L'état, c'est moi* adage.

Despite the Hu-Wen team's slogans about "seeking profits for the sake of the people," it has preserved age-old discriminatory practices against underprivileged

social groupings. The most obvious example is *hukou*, the residence-permit system. Introduced in 1958 to segregate urban and rural residents, *hukou* restricts the ability of farmers to freely work and settle in the cities. The bulk of Chinese are thus barred from health, educational and other benefits taken for granted in urban regions.

According to Sun Liping, a Tsinghua University sociologist, the standard of living in cities is six times higher than that in the villages. The average urban-rural discrepancy world-wide is only one-and-a-half times. In a briefing on the P.R.C.'s achievements in the past 60 years, Pan Jincheng, a senior official at the State Statistical Bureau, pointed out last month that the *hukou* system has created "social disharmony" and that "its abolition has become a historical necessity." A few days later, the SSB issued a statement that Mr. Pan's remarks represented "purely his personal viewpoint."

Since 2003, the Hu-Wen administration has adopted redistributive measures to ensure that the socioeconomically deprived will get a slightly bigger share of the pie. The agriculture tax was abolished in 2005, and some forms of social security payouts—albeit at levels much lower than those of urban areas—are being gradually extended to rural areas. However, the odds remain stacked against the disadvantaged sectors, even as the authorities are trying to uphold stability and sociopolitical "harmony."

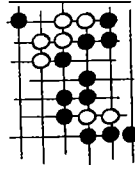
These antediluvian systems of governance have remained frozen because the slightest change is seen as potentially subversive. This is despite the fact that not long after he kicked off China's reform epoch three decades ago, Deng Xiaoping made an impassioned plea for institutional change. "Good institutions and systems can prevent bad people from wanton misdeeds," he said in 1980. "Bad systems result in good people not being able to do good deeds—and they may even end up doing evil things." Even

former President Jiang Zemin, who began his tenure in mid-1989 by shelving political reform, repeatedly emphasized "institutional innovation."

Throughout the Hu era, however, not even lip service has been paid to the modernization of institutions and political procedures. The preservation of the virtual omnipotence of the CCP and allied power blocs is the be-all and end-all of politics. Taking advantage of the blow the global financial crisis has dealt the U.S.-led capitalist system, Beijing's propagandists have gone into overdrive extolling the "China model." Yet in reality, Mr. Hu and his Politburo colleagues have become more paranoid about losing the CCP's "perennial ruling party" status.

As the president said last December, "whatever we had in the past may not be ours now; whatever we have now we may not possess forever." In its annual meeting late last month, the Central Committee pledged to be "brave in reform and innovation and never to become fossilized and stagnant." Rather than looking ahead for new formulas to cure China's woes, Hu has dredged up the discredited dogmas of yesteryear. At the Central Committee plenum, Mr. Hu stunned even Party veterans with throwback to the ideology of Mao in the 1930s, saying that the CCP would "push ahead with the Sinicization of Marxism and rendering Marxism contemporary and popular."

In light of the disasters that Maoism has wrought, Mr. Hu would be better advised to consider a famous dictum of Deng: "Except reform and the open door, there is no way out" for either the Party or the country. And the best way to start what Deng called "resolute and thorough institutional reform" is to clearly demarcate—and separate—the powers of the Party, government, legislature, the judiciary and the armed forces, and to institutionalize proper checks and balances among them. ■



New Power May Not Bring China Security

by Charles Horner

CHINA'S RISE IN the world in the last 30 years owes a lot to what it has learned from the West but, when it comes to "grand strategy," it has a home-grown tradition older and richer than any other. Its mere existence has become a weapon. Chinese strategists are intimidating because they are presumed to have a deep understanding of human nature, politics and diplomacy and how these enhance great national endeavors.

After the founding of the People's Republic of China in 1949, foreigners began their own intensive study of this tradition, and they have enhanced its aura. Sunzi is now an iconic figure in the West and East, and Western analysts and historians routinely explicate the treatises of other great masters and the empire-building achievements of the Mongols in the 13th century and the Manchus in the 18th. How will the old tradition and the growing fund of knowledge about it affect what Chinese—and others—think about China's strategic position today?

In both East and West, a certain pride of place has been granted to Mao Zedong

(1893-1976). His writings on military affairs are an important part of his large oeuvre. What Mao thought he understood best was the reversal of fortunes—yin and yang, rise and fall. With his country invaded by Imperial Japan and his own base of operations besieged on all sides, what made him think he would win in the end?

Mao understood human nature; more importantly, he understood the vulnerability of Japan, a rising power susceptible to the hubris of empire. The Japanese, he believed, would not know when to stop. Meeting weak resistance to their initial onslaught, they would continue to charge into China. With Japan's armies vastly overextended and their flanks unprotected, China's counteroffensive could begin—slowly at first, but accelerating over time. Likewise, as Soviet-Chinese antagonism grew in the 1960s and '70s, Mao argued that any Soviet move into China would play out the same way.

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Soon after the P.R.C. was founded, Mao famously said that the Soviets' present was China's future. Now in the aftermath of the Soviet demise, however, that comment haunts his successors. While the West has paid almost no attention to the origins of that spectacular and unanticipated collapse, in the P.R.C., institutes study it and journals publish articles about it. For Chinese strategists and decision-makers, the Soviet debacle has become a cautionary tale, but what is the moral of the story? China's students of the Soviet demise pay close attention to many domestic factors, but Soviet strategy and foreign policy also figure prominently in the discussion.

The West has forgotten the immensity of the Soviet empire and the scale of its ambitions. The Soviet Union sought the dissolution of NATO and the establishment of itself as the not-so-benign hegemon over all of Europe. It undertook a vast geopolitical enterprise to surround and gain control of the oilfields of the Middle East, hoping to acquire decisive leverage over the world's energy supply. It propounded sweeping changes for the existing international orders of commerce and culture and offered itself to the world as the best kind of domestic political arrangement. And then it was gone.

But while it existed, some in the West sought to calculate the costs of these large aspirations in order to determine whether the Soviet Union could sustain them and whether, by employing a range of tactics, the West could raise those costs to unsustainable levels. In two studies that would later inform the Reagan administration's strategy toward the Soviet Union, Charles Wolf, Jr. and his colleagues at the RAND Corporation looked at the costs accompanying Soviet imperial aggrandizement between 1971 and 1983. They were already large, and the Reagan administration would succeed in making them even larger. Burdened with the additional costs of

maintaining a domestic police state and of subsidizing a chronically inefficient economy, the Soviet Union could no longer remain a growing concern. Thus did the Evil Empire come to grief.

Attentive Chinese know this story well, and in its movement out into the world since 1991 the P.R.C. has been far more economical than its defunct "older brother." It does not maintain large armies of occupation in a group of satellite states, nor does it operate a collection of military and naval bases around the world. It invests in its military forces, but it invests substantially more in its economy, and has made it relatively easy for foreign investors to do so as well. It does not supply and finance armed insurgencies abroad, nor does it subsidize bankrupt states because they campaign for wholesale changes in the existing world order.

At the same time, the police state at home does not come cheap. It must control more than a million square miles of territory inherited from a multiethnic Manchu empire and inhabited by many millions who have yet to be convinced that they are somehow Chinese and should be ruled by Beijing. This has become the major challenge for the People's Liberation Army; in its war games, the PLA practices more for its mission of keeping the peace at home than it does for repelling invaders from abroad.

For expansion of its influence overseas, the P.R.C.'s weapon of choice for the moment is its huge hoard of money. In the P.R.C., foreign-currency transactions above a low threshold must be approved by higher authority in Beijing, and this suggests that the national government wishes to apply intelligent direction to such investments because it thinks of them as somehow "strategic." The P.R.C. now has about \$2 trillion available for this purpose, though much of the war chest is already spoken for.

This is a formidable stash and the ways that the P.R.C. has spent it are at least suggestive and may even be instructive. Right now, China's overseas investments are a mere 5% of the world's total foreign investments. No matter the P.R.C.'s relative position, the world pays disproportionate attention because, unlike substantially larger overseas investors such as Switzerland, the Netherlands, or even Japan, the P.R.C. is presumed to have more in mind than merely making money. Other countries are convinced that the globalization of Chinese capitalism is consciously connected to a grand strategy and that it will somehow work out as China would like it to work out.

In the meantime, the portfolio is being built, first, with forays into advanced industrial countries. Certainly there is an element of traditional capital flight as a hedge—whether by well-connected individuals or the state itself—against future economic problems at home. Other objectives may include dependable returns, some influence on the hosts' domestic politics and greater access to otherwise unavailable advanced technology.

More conspicuous have been the deployments aimed at energy and natural resources. The paradigmatic transactions are some well-known investments in Africa—oil-related projects in Angola and Sudan—and the recent offer of \$17 billion for the Argentinean unit of a Spanish oil company, with the prospect that more will follow into Venezuela and Brazil. Some of these initiatives have already turned contentious, especially in Australia, where on-again, off-again multibillion dollar deals for energy and iron ore are beginning to strain P.R.C.-Australia relations.

"Access," "security" and "reliability"

comprise the standard vocabulary for analyzing the China's enthusiasm for actually spending, or at least vowing to spend, hundreds of billions of dollars on such ventures overseas. But is the P.R.C. made more secure by any of these gambits? One could just as easily conclude that China is making itself more insecure by increasing its dependence on the global maritime hegemony of the United States. If so, why should wary China watchers not be pleased whenever the P.R.C. puts money into distant places such as Iraq, Iran or

Saudi Arabia? If the West worries about its own reliance on such places, why is China following in its footsteps?

The transport of resources vital to China's cities and factories is pathetically easy to

disrupt, and not only by mighty fleets either. Pirates in inflatable boats can do it. Host governments—not just functioning ones like the Australian government but also near-to-nonfunctioning ones like many in Africa—can do it. Right now, the P.R.C. lacks the expeditionary or interventional capability to do much about it. Someday, a government of a developing country will invoke its own national interest and override the P.R.C.'s "contractual rights." This first expropriation of a large P.R.C. holding overseas will occasion much commentary.

Moreover, for the privilege of entering into such putative hostage-taking relationships, the P.R.C. will end up overpaying. For its imports, if it relies on resources that it actually owns overseas, it is a captive purchaser. If, at any given moment, market prices are less than what it costs China to purchase resources from itself, it is paying more than it has to. But, if market prices are higher, it will forego

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profits it might have earned by selling the resource to other customers.

In the meantime, the P.R.C.'s avidity for purchasing such privileged access will prove profitable over the longer run only if energy and commodity prices rise on a sustained basis, but they have yet to rise significantly and never quite seem to do so. Some bankrupt industrial companies—General Motors comes to mind—would have been far better off resisting the siren song of vertical integration and, instead, purchasing their parts from manufacturers competing to supply them, rather than from manufacturers that the combines themselves owned. China, a huge importer of petroleum and raw materials, is in a comparable position, albeit a comparably counterintuitive one.

A Chinese strategist ought to feel right at home sorting through such seeming incongruities. His tradition teaches him that it is vital to discern the difference between the reality of power and the mere appearance of it, even as he must always strive to convey the appearance of the strength he knows he does not yet have. In this, he can be aided by opponents who construe the

situation in an entirely opposite way. Right now, it should be obvious that though the P.R.C. has indeed become a global concern, its reach far exceeds its grasp.

It must still rely for its bedrock economic security if not on the kindness of strangers, then at least on a familiar Pentagon that now has as one of its core missions keeping the world safe for Chinese capitalism. That could change of course, but so too could China's bankrolling of America's profligacy which, right now, is much in accord with the P.R.C.'s national-security interests.

A situation like this cannot but produce strategic cognitive dissonance. For Lenin and his political heirs in Beijing, the question was always who, whom?—that is, who can do what to whom? Today, the strategic analysts among us might pose the question this way: Who has what leverage? Who is acquiring it and who is losing it? Economists might ask: Who is paying how much to buy what? It is possible that China, determined to become a powerful world force by avoiding the fatal mistakes of the Soviet Union, is nonetheless making itself weaker and more vulnerable than it needs to be. ■



Averting Crisis in The Countryside

by Tom Orlik and Scott Rozelle

EVERY REVOLUTION IN Chinese history has started with the peasants. And no one is more aware of this than the ruling Communist Party—Mao Zedong's own assault on the citadels of power started with the mobilization of an agricultural army.

So when the global financial crisis brought production lines in the factories of the Pearl and Yangtze river deltas grinding to a halt, leaving millions of migrant workers jobless, Beijing was quick to recognize not just an economic but also a social problem—one with the potential to shake the current regime to its core. Of China's 700 million rural population, 265 million are estimated to have off-farm employment. Of these, more than half have left their hometown to labor in the factories that sprawl across China's eastern coast.

Life in the factory is hard, hours are long, wages are low, factory owners famously unscrupulous. But as the decision of millions of migrant workers attests, it is better than life in the village. For the government, expending the energies of rural youth to fuel the export machine kills two

birds with one stone—turning what would otherwise be a source of social instability into a driver of higher economic growth. No surprise then, that in the final quarter of 2008, when the export engine first slowed and then ground to a halt, it was feared that the energies that had previously been absorbed on the factory floor would now wreak havoc on the social fabric.

The owners of the factories that employ much of China's off-farm rural workforce have never been particularly solicitous of the well-being of their employees. When profits became losses and debt began growing, many closed their doors without warning, sometimes with large volumes of back wages unpaid. In November 2008, the night-flight of one textile-factory owner in Shaoxing, a city 100 miles from Shanghai, left 4,000 workers unemployed and \$200 million in bills

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unpaid. His former employees, finding the factory gates bolted and their erstwhile employer nowhere in sight, erupted in protest. If this story was repeated across the country, the government feared that multiple local protests could coalesce into a national disturbance.

With the situation for exporters continuing to deteriorate, January's New Year festivities, a time when migrant workers make their annual pilgrimage home to visit family and friends, threatened to become a flashpoint for social unrest. Millions of migrants facing the frustrations of the long journey home, with no job to return to after the holiday, created a potentially explosive situation. In a show of solidarity with hard-pressed travelers, President Hu Jintao visited a railway station in Nanchang, a conduit for migrant workers in Jiangxi province. Fortunately for the government, nature was kind; the snowstorms that blighted travelers' journeys the previous year failed to materialize, and the holiday passed largely without incident. But concerns about social instability remained.

Chinese people joke that the population of the countryside is like the notice encouraging passengers to give up their seats on the metro to those in greater need: old, young, sick, disabled, or pregnant. Rural dwellers that leave the farm for the city are typically younger and better educated than those who remain behind. In the city, their worldview is changed and their aspirations raised. The contrast between the mohican coiffed, fake-designer jean clad, mobile phone-toting tribe disembarking from cross-country buses and trekking first down cement roads then mud tracks to their native villages, and the premodern world to which they have returned, could not be more marked. How long could these agitated youths rest content on the farm? Incomes in many of the migrant workers' home villages are barely above subsistence

level. An extra pair of hands outside of planting or harvest season adds little to on-farm productivity. But an extra mouth to feed eats into already meager rural incomes—incomes that would fall even further as the flow of remittances from family members working off-farm dried up. How long could the farm sustain them? And if frustrated aspirations were paired with a declining standard of living, who could foresee the consequences? The financial crisis might be the match that ignited the tinderbox of social tensions in China's countryside.

Adding It Up

THE FORCES AT work are easy to identify but, until now, difficult to quantify. How many rural inhabitants lost their off-farm jobs? How many of them returned to the farm and how many stayed in the city to try and find new work? Have incomes fallen and, if so, by how much? On employment, a survey by the National Bureau of Statistics, conducted at the beginning of the year, suggested that 23 million migrant workers—16.4% of the total—were out of a job. Even if this number was accurate, it applied only to the migrant work force, or about half of the off-farm rural work force. The NBS claim that wages in both urban and rural areas rose in the first half of the year has been widely ridiculed, even giving rise to another popular joke: "The NBS gave me a pay raise!" With official figures either open to question or covering only a portion of the total off-farm rural work force, the impact of the economic slowdown on China's rural population has been difficult to quantify.

The results of the first independent national household survey provided a means to verify the official statistics and a basis for analyzing the impact on not just migrant workers but the entire off-farm rural workforce. A survey of 1,200 households

in six provinces, conducted by researchers at the Chinese Academy of Sciences and Stanford University, completed in April 2009 and updated in August, showed that the situation is both much worse, and much better, than the official statistics suggest.

The survey data show that the initial impact of the crisis was much worse than was previously imagined. Of the 265 million rural-dwellers with off-farm employment, 45 million, or 17%, either lost their jobs or delayed their move out of agriculture between September 2008 and April 2009. The impact was felt more deeply in southern provinces than northern, which was to be expected given the concentration of exporters in the south. Younger workers were hit harder than older workers, perhaps because the experience of older workers made them more valuable and factory owners were more reluctant to let them go. Less educated workers were more likely to lose their jobs than more educated; those educated to primary school or lower were most likely to face unemployment. The impact of the crisis was neutral between men and women, which suggested that the trend toward a higher share of female workers in the off-farm labor force will not be interrupted.

But the results also show that the ability of China's migrant workers to adapt to the crisis was much better than was previously imagined. By April 2009, the results suggested, 25 million of those rural workers who lost their off-farm jobs had found new employment. By August, that number had increased to 32 million, leaving just 13

million unemployed, or 4.9% of the total off-farm rural labor force.

The results also indicated that the reason for the success of migrant workers in finding new employment was a willingness to accept lower wages. In response to the massive increase in surplus labor, off-farm wages adjusted downwards by about 10%. For China as a whole, that meant a fall from

about 850 yuan (\$125) per month average off-farm wages in 2008 to about 765 yuan per month in 2009, with a steeper fall from a lower base in the south than in the north. It was not clear whether falling wages resulted from falling hours, falling hourly rates or some combination of the two. But what is clear is that the market for China's off-farm



An unemployed migrant worker smiles as he holds his government voucher for additional training in February 2009.

rural labor is flexible, and wages have adjusted to accommodate the shock from the sharp decline in demand.

The results of the survey demonstrate why the worst global economic crisis since World War II did not have a more serious impact on China's social stability: The group most affected by the crisis, the off-farm rural workforce, transformed their energy not into animosity toward the government but into determination to find another job. And China's labor markets were flexible and dynamic enough to allow them to do so. As the production lines of the east coast's exporters hum back to life, and more workers are drawn from the farm to the factory, dark imaginings of wrenching social unrest appear increasingly far-fetched.

The catastrophic outcome that many were predicting has failed to materialize, but this does not mean that all is rosy. Ac-

cording to the NBS, in the first half of this year the average per capita income for urban China reached 8,856 yuan, up 11.2% from a year ago. In the same period, the average income for rural residents increased 8.1% to 2,733 yuan. Official statistics on income growth have been widely disputed, but even the NBS figures show that the gap between urban and rural incomes is high and rising.

The results of the CAS Stanford survey suggest that the effect of the crisis has been to further increase the income differential. Thirteen million off-farm workers are unemployed, and those who remain employed face a 10% wage cut. With off-farm earnings making up 50% of rural income, the NBS suggestion of 8.1% rural income growth is difficult to believe. The reality for many rural residents is more likely stagnant or even falling incomes.

Stalled Land Reform

POVERTY ON THE farm or a precarious existence in the factory is the stark choice that continues to confront China's rural population. The exclusion of farmers and migrants from their share in the benefits of China's rapid development is an affront to the current leadership's notion of a harmonious society. The administration of Hu Jintao and Premier Wen Jiabao has done much to improve standards of living in the countryside. A concerted attempt to reduce the burden of taxation on farmers, subsidies to support rural consumption, and a new labor law that has strengthened the hand of migrant workers against factory owners evidences a genuine commitment to a more inclusive development model.

But for China's rural population, whether they are on or off the farm, barriers along the path to modernity remain formidable. Lack of legally enforceable title to the land they farm is one of the main barriers to the advancement of many of Chi-

na's farmers and their families. Without formal legal title to land, China's farmers have little incentive to make the investments needed to raise on-farm productivity, and no asset they can sell to finance a move to stable off-farm employment.

In October 2008, in a speech in Anhui Province, President Hu signaled that the government was preparing to push ahead with land reform. Questions still needed answers, but a consensus was emerging. Farm families were to receive longer-term legal title to the land they tilled. Stronger protections for contractual land rights had already allowed some farmers to benefit from renting out their land; the new policy initiative would further strengthen those rights. A change to the law would formalize these benefits and extend them to the entire rural population.

Political commitment at the highest level was a significant step forward, but turning the promise into a reality was never going to be easy. Land reform might be one of the single biggest steps the government could take to improve the quality of life for the rural population, but it is also a controversial policy. In its way stand powerful interests in the industrial and real-estate sectors who fear that giving farmers legal title would mean an end to cheap land for development. Local governments are also opposed, fearing that stronger legal protections for farmers would mean an end to their ability to using land sales as a source of ready cash. Finally, there is a principled argument against land reform, with some social policy experts arguing that the land is the off-farm rural workforce's best form of insurance against the risk of unemployment.

The financial crisis and the economic slowdown tipped the balance of the argument in favor of the opponents of land reform. China's response to the crisis has been first to strip away controls on the industrial and real-estate sectors, and sec-

ond to finance a massive program of public-infrastructure investment. Land reform, which would empower farmers to stand in the path of the stimulus juggernaut, fell off the government's agenda. The social-welfare argument also came into play, and the results of the CAS Stanford survey suggest that some 8 million of the 13 million unemployed, or 3% of total off-farm rural workers, have indeed returned to the farm.

But the survey also shows that, for the vast majority, a return to the land was not the answer. Most of China's off-farm rural workers have either held onto their jobs or if they lost them, quickly seized a new employment opportunity. Land played a role in buffering the effects of the slowdown, but much less than many argued. The most effective remedy was finding jobs in the city. The flexibility of China's labor markets is a powerful argument against the opponents of land reform.

As the first shock of the economic slowdown fades and the recovery gathers momentum, there is an opportunity for the

government to refocus attention on long-term priorities. As the current administration enters its final years, land reform should be at the center of its strategy. The government's investment-based response to the crisis might have been the only alternative available at the time. But it has also pushed the economy further away from the necessary rebalancing toward domestic consumption as a driver of growth. By raising the incomes of China's 700 million strong rural population, land reform, perhaps more than any other policy, would lay the groundwork for increasing the share of domestic consumption in GDP. Speeding up migration and encouraging former rural families to sink their roots more deeply into the city can be another driver of growth.

Speaking in 2002, former Premier Zhu Rongji said that his greatest regret was that he had not been able to raise the standard of living for China's farmers. For Hu Jintao and Wen Jiabao, effectively implemented land reform could be their chance to consolidate a legacy as the great reformers of China's rural economy. ■



The Soviet Disease Spreads to China

by Arthur Waldron



THE CHINESE COMMUNIST Party's recent high-level meeting—the Fourth Plenum of the 17th Central Committee—concluded with a call to “strongly support the leadership of the democracy of the people by the internal democracy of the Party.” Given the lack of actual democracy in China at any level, this resolution, highlighted in press reports, suggests that the Chinese party is seeking a solution to a fundamental problem in its own way. Just like the Soviet Union in its waning years, China is now grappling with increasing social complexity and differentiation, ethnic and political, which threatens the monolithic power of the Party.

Karl Marx believed that human history was a homogenizing process, in which the wheel of the dialectic gradually kneaded complexity into simplicity. Thus the myriad guilds of feudalism were replaced by the simpler structures of the industrial working class in the era of capitalism. Marx believed that ultimately the workers would become totally homogenous, a group sharing a single common interest.

Once the handful of capitalists were pushed aside, a self-managing society would come into being because all its members would share the same interests.

In Eastern Europe, then the U.S.S.R., and finally in China, this prediction has proven wrong. Instead of disappearing, diverse interests have multiplied. Mikhail Gorbachev tried to reconstruct the Soviet Union in a way that would diffuse the conflicts arising under socialism and lead ultimately to what he called *soglasie*, or “harmony.” Hu Jintao has exactly the same aim, seeking to create a “harmonious society” where a variety of disputes—some social, some ethnic, some within the party itself—have created a situation that is anything but harmonious.

This problem has long been recognized by socialist analysts. But the way that it is being discussed in China today is of interest above all because that country's fundamental dilemma, growing more acute by the day, is the mismatch between a complex society and a government that is un-

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able really to manage it. It is also revealing in the stress it lays both on disharmony among ethnic groups and disharmony within the party—such as that which, at the recent plenum, seems to have blocked any decision on the future of the putative next leader, Xi Jinping.

The Chinese discussion of the problem began during the period of liberalization under Premier Zhao Ziyang (in office 1980-87). In the Beijing Review for 1987 we find a series of articles by Luo Rongxing and others, one of which, "Different Interest Groups Under Socialism," points out how in communist China social diversity was developing, just as it had in the U.S.S.R.:

"An indisputable fact in China today is that there exist different interest groups whose understanding of the objective situation is different . . . The socialist system has the advantage of being best able to identify the interests of the people with those of society as a whole, *but there are still differences of interests between different groups of people.*" [emphasis added]

Mr. Luo and his colleagues noted: "Since 1978 . . . the reform has diversified forms of public ownership, stimulated the growth of individual, private, and other economic sectors, developed commodity and money relations, upgraded the role of market regulation, and broken away from the absolute egalitarian distribution system. All this has meant that interest relations have changed in every respect—making them more varied, complex, and above all more apparent than ever."

The authors then cited a host of examples. In the countryside, "Households engaged in traditional handicrafts, specialized households, collectives, companies integrating agriculture with industry and commerce, privately owned concerns and so on"—not to mention traditional farmers—"all have interests of their own." In the cities "people involved in industries and enterprises with differ-

ent forms of ownership have different interests." The interests "of government employees and intellectuals have diverged with the reforms in the personnel system." Not to mention the "very complex relationships of interest between towns and countryside, cadres and masses, the various professions, different age groups, people with different educational levels, central and local governments, the coastal areas and the hinterland . . . and sellers and buyers. All these interest relations are shifting, creating new contradictions and conflicts which must be taken into account when considering China's economic and political reforms."

New mechanisms, they argued, must be found to represent and adjust these interests, or China's society risked disintegration, chaos, or conflict. The methods of the past could not be used. Before the reforms, "the masses and cadres were all easily led away from recognition of divergence of interests between different groups in the community: Contradictions and conflicts between people were crammed bag and baggage under the rubric of 'class struggle.'" The need for an enduring structural and institutional solution was emerging.

As China modernized after 1978, she grew wealthier and better educated. As Chinese turned their talents to a variety of tasks, quite naturally conflicts of interest developed. The problem is that the solution to the problem adopted in most countries—namely, free expression, impartial law, and representation of interests in democratically constituted forums—remains unacceptable to the Chinese Communist Party.

The most Mr. Luo could do was quote Li Jun of the Research Institute of China's Economic Reform to the effect that the changes in question are good for society: "It would be meaningful progress for us to recognize and understand that different interest groups do exist in our society. We

would also have to make efforts to coordinate and sort out the contradictions which spring from this.”

That was as far as the discussion went in the 1980s. After Li Peng became premier in April 1988, the prevailing attitude toward the topic quickly shifted. An article in Peking Review called “Controlling the Diversification of Interests” contained no discussion of how the flowering of diversification of interest in China might be accommodated, instead noting, “Future reforms and developments will largely be determined by whether effective ways to check the trend of diversification of interests and to overcome various related negative factors.”

The only means proposed are “the establishment of a new series of market-oriented economic mechanisms” (although how markets would limit diversification is not made clear) and the old standbys, “to strengthen ideological education, establish the concept of putting the interests of the state and the people above all else, and subordinate local interests to overall interests. Professional ethics and social morals must be promoted. Overall, the development of socialist culture and ideology has to be accelerated.” In other words, homogeneity was to be enforced and development restricted, even at the cost of social welfare. Since then the discussion has continued in China, varying with the political atmosphere, in a variety of books and articles.

Mr. Gorbachev believed that openness, or *glasnost*, combined with structural reform, or *perestroika*, would solve the problem. It did not, for although it permitted disagreements to be ventilated, it provided no mechanism for resolving them. In China today disagreements are not even officially supposed to be aired, a restriction that is leading to ever-increasing extralegal protest and disorder. If they were aired, moreover, nothing in the existing judicial and dispute resolution mecha-

nisms is equal to the task of dealing with the proliferating new interests and their conflicts.

The question is whether the measures Mr. Hu proposes to solve this problem will have any more success than Mr. Gorbachev’s—the effect of which was to force the discarding of the single party dictatorship and its substitution by a far more complex system of government in which interests are represented and balanced, although not with complete fairness.

As in China, social order in the Soviet Union was undermined by its own development. During the Brezhnev years, the population was changing in ways that rendered it far less uniform than previously. In 1950, the year Mr. Gorbachev entered Moscow University, there were 1.25 million students enrolled in higher education, about 3% of the population, but by the late 1970s fully 10% of the Soviet population had completed college. Almost 70% had completed high school, compared with 40% in 1950. World-class skills were the order of the day in mathematics, science and engineering—and in other areas as well, though with some political camouflage required. The ability to think critically and creatively about assigned issues inevitably spilled over into thinking about unassigned, even forbidden, topics. This description applies equally to China today.

For the Soviet leadership this was an entirely unexpected and unwelcome discovery. Beginning in the mid-1970s, the regime, rather like the Chinese leadership after 1988, was increasingly intent on discouraging or suppressing sociological research that tested the limits of the Marxist predictions of “social simplification.”

These issues could be resolved, some communist theorists thought. But Soviet sources representative of the Brezhnev leadership’s outlook resolutely denied that stronger internal integration would arise solely from the spontaneous development

of society. Rather like the second Chinese article quoted above, they insisted that if social development were not subjected to conscious, planned direction, the growth of complexity and differentiation would lead to anarchy and disintegration.

That was because even under socialism, new “contradictions” were arising. No longer were social disputes thought to be *per-
ezhitki*, or “survivals,” of the old society. They were recognized as *nazhitki*, “acquisitions” or products of socialism itself. The Chinese discussion of this problem draws on more than 20 years of debate in the Soviet Union.

Differentiation was particularly worrying with respect to ethnic questions. The words of Nikolai Leonov, the chief analyst at the KGB, are probably well known in China: “The Soviet Union resembled a chocolate bar: It was creased with the furrowed lines of future division, as if for the convenience of its consumers.”

China is of course deeply worried about the ethnic tensions that began to bubble over last year. These worries are made all the more acute because the basic Soviet model of ostensibly self-governing ethnic states within a larger unit was adopted by the People’s Republic as well. So terrifying was the disintegration of the Soviet Union along ethnic lines that some Chinese scholars have concluded that the idea of a union based on self-governing ethnic territories is defective. They argue that “a new meaning must be given to national self determination, in order to dilute national self-consciousness and assist the preservation of the unity of the multi-ethnic national state.”

Such a view would seem to have been adopted already in China. Stress is now turning to the project of somehow making all those who dwell within the borders of the People’s Republic into Chinese, part of the *zhonghua minzu* or “Chinese race,” thus substituting ethnic homogeneity—enforced

by the flooding of minority areas with Chinese—for the economic homogeneity that failed to appear. One need only look at the displays in Tiananmen Square for National Day of pillars representing the various ethnicities as part of a single whole to recognize the increasing emphasis on racial rather than class-based ideas of solidarity. All this is different to the experience of the Soviet Union, where the idea of a “Soviet people” or *Sovetskii narod* was long avoided, and invoked only very late in the day.

To which we may add an additional problem for China. In the U.S.S.R. the dissolution of the Party came as the result of the unfolding of events after Mr. Gorbachev’s policies were put into place. No factionalism comparable to what we see in China today existed in the last years of the Soviet Union. Unlike the Soviet Party then, the Chinese Party today is “creased with the furrowed lines of future division.”

In contrast to the history of the Communist Party of the Soviet Union, the record of the Chinese Party is one of chronic factionalism, even at times when a dominant figure such as a Mao or a Deng was present. Diversification of society only reinforces and underpins such factionalism. Weak leadership, with no individual clearly more qualified for supreme rule than another—the situation today—further exacerbates the situation.

Few people are more different than Mikhail Gorbachev, the humanitarian communist, and Hu Jintao, the chilly authoritarian. Yet here is Mr. Hu and the Fourth Plenum, clearly at a loss for other solutions, proposing intraparty democracy, a sort of glasnost for the few, among possible answer to challenges to harmony both in the state and within the party. This should come as no surprise. China faces the same fundamental structural problems that the Soviet Union did and will find herself walking the same road of Marxist improvisation. ■



The DPP Calls for Round Two

by Michael Fonte



THE DEMOCRATIC progressive Party is rebuilding its support among Taiwan's voters after severe defeats in Taiwan's 2008 Legislative Yuan and presidential elections. The process began earlier this year with grass-roots efforts such as rallies, a referendum drive, volunteerism and typhoon relief. The party is now developing new policies to attract independent, middle-class and working-class people hit hardest by the economic recession. The first results emerged on Sept. 26, when voters elected the DPP's Liu Chien-kuo to the Legislative Yuan from Yunlin County and defeated a Kuomintang-backed referendum on casinos in Penghu County.

On May 17 this year, the DPP orchestrated a Taipei rally which drew upwards of half a million people with a call to "stand for democracy." This overwhelming response reflected anger over the Ma administration's lack of effective programs to deal with the impact the recession was having on ordinary Taiwanese as well as the administration's suppression of dissent.

Freedom House's November 2008 call for "the Taiwan government to create an independent commission to thoroughly investigate clashes between police and activists protesting Chinese envoy Chen Yunlin's historic visit and recommend reforms" had gone unheeded. The Freedom Square sit-in of the "Wild Strawberries," an independent group of students, and their call for reform of the restrictive Parade and Assembly Law had also gone unheeded.

At the rally, Chairwoman Tsai Ing-wen, noting the DPP's role in pushing for reforms in the 1990s, announced the initiation of a second wave of democratic reform, "This second reform effort cannot rely solely upon the Legislative Yuan. In fact, we are witnessing a renewal of the spirit of the student movement of the '80s and the social movements of the '90s. We have to remobilize the power of our grass-roots support. Only in this manner can this second wave of democratic reform be successful."

The DPP has proposed a package of reforms, including that of the Parade and As-

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sembly Law to liberalize the law and protect citizens' rights to freedom of expression and assembly.

ECFA Referendum

ANOTHER DPP PROPOSAL was a referendum on the Ma administration's Economic Cooperation Framework Agreement with China. The DPP believes this referendum is necessary because, while Ma Ying-jeou won the presidency with promises of economic revival based on a smoother relationship with China and the supposed opportunities that would come from better cross-Strait ties, to date the benefits have been negligible. Moreover the DPP has concerns about the lack of transparency and legislative oversight of the nine economic agreements already concluded.

In addition to the opaqueness of the agreements already signed, the DPP is concerned about the seeming disregard for any analysis of which sectors of Taiwan's economy would be aided or hurt by the agreements and potential ECFA, as well as the lack of any sign of trade adjustment plans for those workers negatively impacted.

The public's response to the DPP's call for volunteers to collect ECFA petition signatures was strong, and after a month more than 180,000 signatures were presented to the Executive Yuan's Referendum Review Committee. But on Aug. 29, the Committee rejected the ECFA referendum petition. The DPP believes that this is another clear sign of the KMT's vested interest in pushing through this agreement without an objective and impartial review. The DPP also believes that the Committee overstepped its legislated authority by reviewing the substance of the referendum, not the form as is mandated in the legislation. The Party plans to file an administrative appeal and not let this pushback of democratic participation stand.

In addition to the ECFA petition drive,

the high energy of volunteers at the Kaohsiung World Games in July and in the aftermath of Typhoon Morakot bodes well for the future of democracy and the involvement of young people. DPP Mayor of Kaohsiung Chen Chu and her team, led by Liu Shyh-fang, won praise from the International Association. Mayor Chen's negotiation with Association President Ron Froehlich led to his introducing Ma Ying-jeou as the "President of the Republic of China," no small feat in the light of Chinese pressure not to do so.

The joy and celebration were short-lived, however, as Typhoon Morakot dealt death and destruction to Taiwan from Aug. 8 on. Hundreds died, with some 25,000 evacuated because of the floods and mudslides. On Aug. 9, the DPP established a Typhoon Morakot Disaster Relief Operation Team led by Secretary-General Wu Nai-ren. A Disaster Relief Information Web site was set up, and the DPP started to collect and distribute disaster information, aid supplies, and funds as well as recruit volunteers. The Party's online organization also started to send out real-time updates of the disaster situation and volunteer demands.

On Aug. 10, three operation centers were established in the DPP chapters of Kaohsiung, Tainan and Pingtung counties, and the first disaster-relief teams were sent out. Volunteer efforts continued through the following days, and the DPP has set up a Reconstruction Consultation Team to establish a long-term communications channel between the DPP headquarters and affected counties and communities governed by the DPP, assist in drafting a reconstruction white paper, and draft relevant legislative proposals immediately.

We are Taiwanese

ONE OVERARCHING QUESTION remains as we in the DPP strive to "stand up for de-

mocracy." Does the acceptance by President Ma Ying-jeou of a "one China" framework skew his governance of Taiwan? Does his inaugural statement that the people on both sides of the Taiwan Strait are "all of the same Chinese race" and his belief that the Republic of China, constitutionally, consists of a "mainland region" and a "Taiwan region" mean he is determined to marginalize as fully as possible those, led by the DPP, who believe in a unique "Taiwanese identity" and in the sovereign, independent status of Taiwan? Is he willing to preside over a rollback of democracy to reach the ultimate KMT goal of "one China"?

The judiciary's prosecution of former DPP officials and staff puts this question in high relief. The detention, trial and guilty verdict handed down in former President Chen Shui-bian's case has, understandably, received the greatest publicity. A wide range of Taiwanese and international lawyers have criticized the judiciary's handling of this case. Some serious questions raised include the midstream switching of judges from one who released Mr. Chen from detention to one who renewed the two-month detention period continuously, the regular leaks of confidential information to the media, a skit mocking Mr. Chen with the prosecutors in attendance, and the justice minister's campaign to have Mr. Chen's lawyer disciplined for alleged violations of law and ethics because the lawyer publicly questioned the fairness of the judicial process. International human-rights lawyer Jerome Cohen noted the similarities to the tactics used by China and Singapore.

Former President Chen's case is complicated by the fact that his family did transfer large sums of money abroad. But this is just the tip of the iceberg in the prosecutorial zeal of the Ma administration against former DPP officials. The recent indictments of former Vice-Minister

of Foreign Affairs Michael Kao and former National Security Advisor Chiou I-jen are but the latest in a very long line of detentions, interrogations and indictments with the intent, we believe, of humiliating both the individuals involved and smearing the DPP with accusations, no matter how unsupportable they may be. DPP county magistrates from Yunlin and Chiayi were led off to jail in handcuffs without charges leveled against them. More than 100 DPP staff and former officials have been interrogated, detained and/or indicted, and this points, we believe, to an effort to tar the whole of the DPP with the brush of corruption.

The party's response has been direct: Corruption by any official is to be prosecuted, but the judicial process should be objective and follow legal principles, avoiding any subjective and political bias in order to safeguard Taiwan's democratic values. President Chen must take "political responsibility" for his actions but "must be judged through a fair administration of justice and a clear set of standards." The party calls for Mr. Chen's release from detention so that he might effectively prepare his appeal court defense and supports the rights of all its former officials and party members to fair and just treatment.

Another attempt to smear DPP officials took place in the aftermath of Typhoon Morakot. President Ma tried to cover up his administration's slow response to the unfolding crisis by blaming local officials, all DPP, for the tragic loss of life. What Mr. Ma conveniently ignored was the information available to the central government and the powers that should have been invoked. The Disaster Prevention and Protection Act, enacted following the tragic 921 earthquake of 1999, provides the government with all the authority and resources needed to deal with Morakot-type disasters, including evacuating com-

munities in danger. And the Central Disaster Response Center is provided with the technical information supplied by flood monitors throughout the country.

While the incompetence of the Ma administration in monitoring the Center's information and acting on it cost lives, it is more difficult to judge the impact of the Ma government's rebuff of the immediate offer of aid by both the United States and Japan. The "golden 72 hour" period wherein lives might possibly be saved in such a disaster passed while this aid was rejected. Was this a matter of KMT incompetence or a question of checking with China to make sure its feathers wouldn't be ruffled by the sight of U.S. planes and helicopters landing in Taiwan? Or was it to give China a chance to get there first? Or all of the above?

In the aftermath of the Morakot debacle, President Ma said, "Now our enemy is not necessarily the people across the Taiwan Strait, but nature. In the future, the armed forces will have disaster prevention and rescue as their main job. So they have to change their strategy, tactics, their personnel arrangements, their budget and equipment." Mr. Ma also declared that Taiwan would reduce the number of UH-60 Black Hawk helicopters it intends to buy from Washington from 60 to 45, which would free approximately \$300 million to acquire helicopters and other equipment designed to deal with disaster relief.

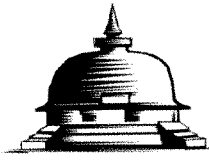
Minister of National Defense Chen Chao-min, however, said, "Disaster and rescue relief [are] one of the primary missions of the military," not the main one. The military has said it is going forward with the request for 60 helicopters, and would make 15 available when needed in a crisis.

The DPP supports the strong Quadrennial Defense Review that the Armed Forces produced earlier this year, which is quite unequivocal about the threat from Mr. Ma's friends across the Taiwan Strait.

The QDR states, "Despite the current relatively relaxed security situation over the Taiwan Strait, the P.R.C.'s rapid development of military capabilities remains the most direct security challenge for Taiwan." The DPP also agrees with a second point in the QDR, "The R.O.C. stands at a historic turning point, confronted by many difficulties and barriers. It is vital that the entire nation reach a consensus, achieve unity of purpose, face up to the challenges, and build a new future with wisdom and courage."

In other policy areas, the DPP has organized teams of experts and former government officials into various specialized task forces and advisory groups. For example, to deal with the complexities of China's rising influence and much more aggressive psychological, media and economic divide-and-conquer offensive, the Party has established a China Affairs Working Group to lay the groundwork for coordinating effective policy responses and charting the party's strategic direction in cross-Strait relations. Furthermore, to refine the quality of public-policy discourse, the DPP has policy working groups on economics and finance, foreign affairs, postdisaster reconstruction, human rights and judicial reform, H1N1 epidemic prevention. The goal is to provide feasible policy alternatives and critiques to re-establish the public's confidence in the DPP's experience and ability to govern effectively.

There is a lot of hard work ahead for the DPP to "build a new future." The party is working, with all the wisdom it can muster, to do so. We are putting together the building blocks for a renewed party that will stop the rollback of democracy, strengthen democratic institutions and forcefully contest the county elections at the end of this year, the important metropolitan elections in 2010, and the legislative and presidential elections of 2012. ■



Sri Lanka's Elusive Peace Dividend

by *Brahma Chellaney*

SUCH IS THE misfortune of war-scarred Sri Lanka that even after military victory in the civil war, the island nation is unable to find peace. Months after the Tamil Tiger guerrillas were crushed and their top leadership eliminated, Sri Lanka has done little to begin addressing the root causes of conflict or to outline a possible answer to the long-standing cultural and political grievances of the Tamil minority, which makes up 12% of the 21.3 million population. Consequently, the government risks squandering the hard-won peace. It will be a double tragedy for Sri Lanka if winning peace proves more difficult than winning the war.

From being a self-proclaimed "island of paradise" in the early 1980s, Sri Lanka became an island of tremendous bloodshed for more than a quarter of a century. But even by the country's gory record, the bloodletting this year was unparalleled as the Asia's longest civil war built to a bloody crescendo. Thousands of noncombatants, according to the United Nations, were killed in the final months of the war as government forces overran the Tamil Ti-

gers, who had established a de facto state in Sri Lanka's north and east. United Nations Secretary-General Ban Ki-moon acknowledged that civilian casualties were "unacceptably high."

Ignoring international calls to suspend offensive military operations to help save lives of trapped civilians, President Mahinda Rajapaksa and his brother, Defense Secretary Gotabhaya Rajapaksa, a naturalized United States citizen, pressed ahead with their military campaign, under the command of General Sarath Fonseka, a U.S. green card holder. The offensive actually bore a distinct family imprint, with another brother, Basil Rajapaksa, the president's special adviser and architect of the political strategy. A third brother, Ports and Civil Aviation Minister Chamal Rajapaksa, awarded China a contract to build Sri Lanka's billion-dollar Hambantota port, which Beijing today values as a prized jewel in its "string of pearls" strategy in this region—the thoroughfare for much of the interna-

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tional oil-export supply and nearly half of all global seaborne trade. An increasingly sea-minded China, instead of competing with the U.S. in the Pacific, has turned its attention to the Indian Ocean, employing its rising oil exports as justification.

Such is Sri Lanka's vantage location that it sits astride vital sea lanes of communication. Beijing, in return for being allowed to make strategic inroads, provided Sri Lanka with offensive weapon systems that helped break the long-pending military stalemate on the island. Chinese Jian-7 fighter-jets, anti-aircraft guns, JY-11 3D air surveillance radars and other weapons played a central role in helping government forces unravel the Tigers' *de facto* state. Chinese weapons began pouring in from 2007 when, in response to a daring 2007 raid by the Tigers' air wing that wrecked 10 government military aircraft, Beijing quickly supplied six warplanes on long-term credit.

China also came to the rescue of a tottering Sri Lankan economy, increasing its bilateral aid fivefold in one year to \$1 billion in 2008 to emerge as Sri Lanka's largest donor. It even got Pakistan, its ally, actively involved. With Chinese encouragement, Pakistan—despite its own faltering economy and rising Islamist challenge—boosted its annual military assistance loans to Sri Lanka to nearly \$100 million last year while supplying Chinese-origin small arms and training Sri Lankan air force personnel in precision-guided attacks.

Put simply, China gave Sri Lanka the military and economic power as well as the diplomatic cover to prosecute the war as it wished in defiance of international condemnation. As in Sudan, Zimbabwe, Zambia, Uzbekistan, North Korea, Burma and elsewhere, Chinese support directly contributed to the Sri Lankan bloodbath. In fact, Sri Lanka is just the latest case illustrating how China aggressively pursues strategic interests by employing its U.N.

Security Council veto power to provide political protection to a human-rights abusing government.

India's role also has been deplorable. For years, India had pursued a hands-off approach toward Sri Lanka in response to two developments: a disastrous 1987-90 peace-keeping operation and the 1991 assassination of former Prime Minister Rajiv Gandhi. Having been outmaneuvered by China's success in extending its strategic reach into the Indian Ocean, New Delhi got sucked into providing major assistance to Colombo over the last few years, lest it lose further ground. From opening an unlimited line of military credit for Sri Lanka to extending naval and intelligence cooperation, India provided important war-relevant support in a deteriorating humanitarian situation.

President Rajapaksa deftly played the China, India and Pakistan cards to maximum advantage for his war strategy. After key Tamil Tiger leaders had been killed in the fighting, including some who committed suicide by cyanide poisoning to avoid capture, President Rajapaksa—to New Delhi's acute mortification—thanked China, India and Pakistan in the same breath for the victory. With its leverage undermined, India today is groping to bring direction to its Sri Lanka policy by defining its objectives more coherently, even as it struggles to respond to the apparent Chinese strategy to control naval choke points in the region. Indeed, the extent to which India has ceded strategic space in its backyard is evident from the fact that Bhutan remains its sole main pocket of influence. In Sri Lanka, India has become a marginal player despite its geo-strategic advantage and trade and investment clout.

President Rajapaksa has been basking in the glory of his military triumph, lionized by nationalists as a modern-day incarnation of Dutugemunu, a Sinhalese ruler who according to legend vanquished an invad-

ing Tamil army led by Kind Elara some 2,000 years ago. His real test, however, begins now. As more evidence trickles out from Sri Lanka about the brutal military campaign he directed, allegations of war crimes and crimes against humanity are likely to dog President Rajapaksa unless he decides to emulate the ancient Sinhalese king's post-victory action in making honorable peace with the Tamils. So far, though, President Rajapaksa has had difficulty coming out of war mode.

How elusive the peace dividend remains can be seen from his decision to press ahead with the further expansion of an already-large military. The Sri Lankan military is bigger in troop strength than the British and Israeli armed forces, having been expanded fivefold since the late 1980s to some 200,000 regular soldiers today. In victory, that strength is being raised by 50% to 300,000 troops in the name of "eternal vigilance." After the May 2009 victory, the government announced a drive to recruit 50,000 new troops to help control the northern areas captured from the rebels. The expansion would make the Sri Lankan military larger than those of major powers such as France, Japan and Germany.

Indeed, by citing a continuing danger of guerrilla remnants reviving the insurgency, President Rajapaksa seems determined to keep a hypermilitarized Sri Lanka on a war footing. Since he came to power, he has sought to frenetically swell the ranks of the military and establish village-level civil militias, especially in conflict-hit areas. With an ever-larger war machine, civil society has been the main loser.

Stable peace can be built only through genuine interethnic equality. Sri Lanka needs to transition from a unitary state to a federation that grants provincial and local autonomy. After all, the issues that triggered the 26-year civil war were rooted in the nation's post-independence

moves to fashion a monoethnic national identity, best illustrated by the 1956 "Sinhalese only" language policy and the 1972 Constitution that eliminated a provision against minority discrimination. Beside Malaysia, Sri Lanka is the only state in the world with affirmative action for a majority ethnic community.

The air of martial triumph pervading Sri Lanka is making it difficult to heal the wounds of war through three essential "R's": relief, recovery and, most importantly, reconciliation. A process of national reconciliation anchored in federalism and multiculturalism can succeed only if human-rights abuses by all parties are independently investigated, including claims that Sri Lankan troops indiscriminately shelled civilians caught up in the fighting.

The danger of renewed conflict in Sri Lanka cannot be dismissed. The killing of hundreds of civilians, possibly up to 3,000, in the still-uninvestigated 1983 anti-Tamil riots triggered a quarter-century cycle of bloody conflict. The killing of countless thousands this year could engender another cycle of violence unless there is genuine reconciliation.

This was a war with no witnesses, with the government having barred independent journalists and observers from the war zone. In that light, as Navi Pillay, the U.N. human-rights commissioner, has said, "a new future for the country, the prospect of meaningful reconciliation and lasting peace" all hinge on "an independent and credible international investigation ... to ascertain the occurrence, nature and scale of violations of international human-rights and international humanitarian law" by all sides during the conflict. Such a probe, however, seems a long way off, with Prime Minister Rajapaksa rejecting even regional autonomy and, to the chagrin of Tamils, demerging the northern and eastern provinces.

Another issue of concern is the manner in which the government still holds some 280,000 Tamil civilians in barbed-wire camps where, in the recent words of Ms. Pillay, the “internally displaced persons are effectively detained under conditions of internment.” Such detention, including of 80,000 children, risks causing more resentment among the Tamils and sowing the seeds of future unrest. The internment was officially justified as necessary to help weed out rebels. But authorities have had months to identify such suspects, and those that have been singled out already have been transferred to undisclosed military sites.

Those in the evacuee camps are the victims and survivors of the deadly war. To confine them in the camps against their will is to further victimize and traumatize them. While the government has promised to resettle 80% of those in the camps by mid-November, it has yet to state a clear resettlement plan. One person allowed to visit some of these camps was Ban Ki-moon, who said after his tour last May: “I have traveled round the world and visited similar places, but these are by far the most appalling scenes I have seen.” Sri Lanka’s interests would be better served through greater transparency. It should grant the U.N., International Red Cross and nongovernmental organizations at home and abroad unfettered access to care for and protect the civilians in these camps, allowing those who wish to leave the camps to stay with relatives and friends.

There also is the issue of thousands of missing people, mainly Tamils. Given that many are still searching for missing loved ones, the government ought to publish a list of all those it is holding in evacuee camps, prisons, military sites and other security centers. Even suspected rebels in state custody should be identified and not denied access to legal representation. More than 4,000 rebels reportedly surrendered in the final days of the war. Authorities

should disclose the names of those they know to be dead—civilians and insurgents—and the possible circumstances of their death.

Yet such are the costs of victory that Sri Lankan civil society stands badly weakened and civil liberties curbed. The wartime suppression of a free press and curtailment of fundamental rights continues in peacetime, undermining democratic freedoms and creating a fear psychosis. Sweeping emergency regulations remain in place, arming the security forces with expansive powers of search, arrest and seizure of property. Public meetings cannot be held without advance government permission. Individuals can still be held in unacknowledged detention for up to 18 months. On Aug. 7, Colombo announced that the Tigers’ new chief, Selvarasa Pathmanathan (known as “KP”), was in its custody, after he reportedly was abducted by Sri Lankan intelligence from a Kuala Lumpur hotel. The Thailand-based “KP”—the self-designated interim successor to Velupillai Prabhakaran, who died with his son and daughter on the battlefield—has yet to be produced before a magistrate or judge.

The Road Not Taken

FOR THE PROCESS of reconciliation and healing to begin in earnest, it is essential the government shed its war-gained powers. Unfortunately, Colombo still seeks to hold onto its special powers and hold back the truth. Those who speak up are labeled “traitors” (if they are Sinhalese) or accused of being on the Tamil diaspora’s payroll. Last year, a Sri Lankan minister accused John Holmes, U.N. undersecretary general for humanitarian affairs, of being on the rebels’ payroll after Mr. Holmes called Sri Lanka one of the world’s most dangerous places for aid workers. Recently, a well-known astrologer who predicted the president’s ouster from power

was arrested. The U.N. Children's Fund communications chief was ordered to leave Sri Lanka after he discussed the plight of children caught up in the government campaign. All this has made U.N. officials in Sri Lanka wary of saying anything critical of the handling of the situation.

In fact, the media remains muzzled. Journalists have been beaten up, abducted, imprisoned or killed. According to international organizations, at least 16 journalists have been murdered in Sri Lanka since 2004. Lawyers who dare take up sensitive cases face threats, so it is difficult for relatives of those missing to file habeas corpus petitions.

Another factor at play is the postvictory upsurge of Sinhalese chauvinism. Rather than begin a political dialogue on creating a more level-playing field for Tamils in education and government jobs, the government has seen its space get constricted by such chauvinism that is opposed to the devolution of powers to the minorities. This has compelled President Rajapaksa to declare, "Federalism is out of the question." The hard-line constituency argues that the Tamils in defeat shouldn't get what they couldn't secure through three decades of unrest and violence. Indeed, such chauvinism tars federalism as a forerunner to secession, although the Tamil insurgency sprang from the state's rejection of decentralization and power-sharing. The looming parliamentary and presidential elections also make devolution difficult, even though the opposition is fragmented and President Rajapaksa seems set to win a second term.

Yet, reversing the state-driven militarization of society, ending the control of information as an instrument of state policy and promoting political and ethnic reconciliation are crucial to postconflict peace-building and to furthering the interests of all Sri Lankans—Sinhalese, Tamils and Muslims. So also is the need to discard the almost monoethnic character

of the security forces by recruiting more Tamils. Colombo has to stop dragging its feet on implementing the Constitution's 13th amendment, which requires the ceding of some powers to the provincial level. But even if the process of devolution were to begin, it cannot succeed without an end to the present pattern of regular violations of human rights.

Sadly, there is little international pressure on Colombo, despite the leverage offered by a cash-strapped Sri Lankan economy's need for external credit. The United States enjoys a one-country veto in the International Monetary Fund, yet it chose to abstain from the recent IMF vote approving a \$2.8 billion loan that Sri Lanka desperately needed. In the face of China's stonewalling in the U.N., Mr. Ban has been unable to appoint a U.N. special envoy on Sri Lanka, let alone order a probe into possible war crimes. The best the U.N. has been able to do is to send a political official to Colombo in September to discuss resettlement of the detained Tamil refugees. Indeed, in the absence of international pressure, there is a lurking danger that the government may seek to change demography by returning to its old policy of settling Sinhalese in Tamil areas.

It is thus important for the democratic players, including the U.S., the European Union, Japan and Norway—co-chairs of the so-called Friends of Sri Lanka—and India, to coordinate their policies on Sri Lanka, even though these players were remiss in discharging their responsibilities while the war raged. If President Rajapaksa continues to shun true reconciliation, these countries should ratchet up pressure on Colombo. The International Criminal Court has opened an initial inquiry into Sri Lankan rights-abuse cases; donor nations could lend support to calls for an international investigation into the thousands of civilian deaths and allegations of extrajudicial killings. ■



Obama Needs to Rethink Pyongyang

by *Ilan Berman*

THE PROBLEM OF North Korea has bedeviled policy makers in Washington for years. The notoriously opaque Stalinist state that sits above the 38th Parallel represents one of the world's most intractable security dilemmas. Starting this spring, however, the challenge posed by Pyongyang has grown more acute. The defiant series of nuclear and ballistic tests carried out by Kim Jong Il in May has brought into sharp focus the growing threat posed by the North's strategic arsenal—and precipitated a frenzy of international activity in response.

The Obama administration, still in the early stages of formulating its Asia policy, has reacted to Pyongyang's provocations in predictable fashion. It has redoubled America's diplomatic investment in the moribund multilateral effort known as the Six Party Talks, even going so far as to reverse longstanding limits on diplomacy with the D.P.R.K. by expressing a willingness to engage in bilateral talks (if only to coax North Korea back to the nuclear negotiating table). But dealing with the D.P.R.K. will require more than mere diplomatic

engagement. It will necessitate Washington having an accurate understanding of what makes the regime in Pyongyang tick.

Doing so will be more difficult than it seems. For years, Washington has adopted a status quo approach toward North Korea—one defined by the view of North Korea as fragile, the Kim regime as a one-man show, and the North's nuclear effort as negotiable. In fact, however, none of those things is true.

A State of Flux

A RETHINKING OF American policy toward Pyongyang starts with understanding that, for the foreseeable future, the Hermit Kingdom is here to stay. Next year will mark the 60th anniversary of the outbreak of the Korean War, which pitted Kim Il Sung's fledgling communist stronghold against its southern neighbor in one of Asia's bloodiest contemporary conflicts. Yet Washington and other Western capitals for years have

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treated the North Korean regime as little more than a temporary phenomenon.

It is not. The insular dynasty that has ruled Pyongyang for the past six decades has repeatedly defied forecasts about its long-term viability as a nation-state. Indeed, during the mid- to late-1990s, as many as three million North Koreans—more than 10% of the country's total population at the time—are estimated to have died as a result of devastating national famine. Yet at no point during that terrible period, arguably the darkest in the D.P.R.K.'s history, did the regime in Pyongyang appear to totter.

North Korea's leadership likes to ascribe this longevity to its own peculiar brand of patriotism. Like his father in his day, "Dear Leader" Kim Jong Il defines his regime, and justifies its excesses, based on the concept of *juche*, an ideological doctrine that promotes political independence, economic self-sufficiency and national defense. That idea, coupled with a pervasive cult of personality and a systematic isolation of its population from the outside world, has bred what regional observers have likened to a "faith-based model" of government. Put simply, ordinary North Koreans believe the hardships they are forced to endure are the result of external forces rather than Pyongyang's own policies. The North Korean regime, therefore, is neither rickety nor lacking in popular support.

What is clear, however, is that the power structure in Pyongyang is in a state of profound flux. In August of 2008, reports surfaced that Kim Jong Il had suffered a serious stroke that had left him incapacitated, or worse. This speculation appeared to be confirmed by Mr. Kim's lengthy absence from the national stage, which strengthened rumors that the Dear Leader had taken seriously ill or even died.

Subsequent months have seen Mr. Kim re-emerge on the political scene, but in a diminished capacity. The consensus among officials and academics in Seoul

and Tokyo is that command of the National Defense Commission—the 13-member cabal that serves as the D.P.R.K.'s most powerful political body—has quietly been assumed by Mr. Kim's 63-year-old brother-in-law, Chang Sung-taek. And when Pyongyang negotiated the release of American journalists Euna Lee and Laura Ling earlier this year, the Commission (rather than Mr. Kim himself) is believed to have orchestrated the deal. This circumstantial evidence suggests that the D.P.R.K., once a one-man show, is increasingly being run by committee.

Nor is that situation likely to change in the near future. Academic experts and regional scholars are quick to point out that Kim Jong Il had close to 30 years of on-the-job training at Kim Il Sung's side before officially assuming the reins of power upon his father's death in 1994. By contrast, Kim Jong Il's recently-appointed heir apparent, Kim Jong-un, is expected to have far less—and therefore will require considerable help steering the North Korean ship of state once he takes office.

All of which is bound to have a profound effect upon regime decision-making. The past six decades have been typified by the vagaries of an unpredictable dictator. The next one, however, may be driven by the strategic priorities of a military junta.

Perhaps most damaging has been a tendency on the part of Washington and its international partners to underestimate the permanence of North Korea's nuclear effort. Ever since the start of multilateral negotiations in August 2003, the international community has treated North Korea's nuclear program as a reversible project. The official goal of the off-again, on-again Six-Party Talks, six years after their inception, remains the complete denuclearization of the Korean Peninsula.

But North Korea's nuclear program gives no sign of being up for grabs. To the contrary, an entire generation of scientists

and engineers has devoted their professional lives to erecting the North's nuclear complex. The D.P.R.K. has been willing to expend precious state treasure and inflict massive hardship and privation on its own people to make this endeavor a reality.

This atomic effort, moreover, holds great symbolic significance for Pyongyang. It represents the single area of geopolitical dominance on the part of the North over its more dynamic, prosperous and vibrant southern neighbor. It is hard to conceive of the North treating this enterprise as a bargaining chip in its relations with the United States in a serious way, and harder still to imagine that Pyongyang would be willing to voluntarily give up its strategic ace-in-the-hole, regardless of the rewards proffered by the international community.

None of this, of course, means that the world should simply learn to love the North Korean bomb. But neither should the United States assume, as it currently appears to, that Pyongyang will be willing to give up its nuclear advantage, either now or in the future, if only the proper carrots were put in place.

Plan for Crises

IN ITS DAY, the Bush administration pursued a haphazard and contradictory policy toward Pyongyang. Its flagship counterproliferation effort, known as the Proliferation Security Initiative, put a serious crimp in North Korea's efforts to sell ballistic missile and weapons of mass destruction components abroad early on, but faded into obscurity in Mr. Bush's second term. So did the U.S. Treasury Department's efforts to target the North's illicit activities through robust sanctions, which were pulled back by a skittish White House just as they had begun to bite. This schizophrenia was driven in large part by the fact that, as then Secretary of State Colin Powell famously made clear, the Bush administration, for all of its

strident rhetoric, did not in fact have "any red lines" for dealing with the D.P.R.K.

Neither does Team Obama. The new administration's preference for engagement with the world's most troublesome regimes has led it to uncritically embrace the idea that problems with Pyongyang can be negotiated away. In the process, it has failed to think deeply enough about ways the U.S.—working in concert with regional allies in Asia—can seriously deter the D.P.R.K. and contain its rogue habits.

It will need to in the near future. North Korea has set a target date of 2012 for its emergence on the world stage as a "great, prosperous power." The date holds great significance for Pyongyang; it will mark the 100th anniversary of the birth of the late Kim Il Sung; the 70th birthday of the current "Dear Leader," Kim Jong Il; and the 30th birthday of Kim's anointed heir, Kim Jong-un. South Korean officials believe that the D.P.R.K.'s nuclear program will be "completed" by this time as well, cementing its status as an atomic power.

An added worry is the looming issue of succession. A transfer of power in Pyongyang could very well take place peacefully, without adverse effects on the stability of the country's political system. Just as easily, however, the deteriorating health or passing of the "Dear Leader" could precipitate a power struggle within the D.P.R.K. Under such conditions, the notoriously unpredictable regime in Pyongyang could become even more so, with regional or even international conflict a potential result.

All of which suggests that over the next several years successful crisis management on the Korean Peninsula is likely to become a full-time occupation for Pyongyang's neighbors—and perhaps for Washington as well. In order to navigate this period safely, the White House will need to see North Korea as it truly is, rather than as it would like it to be. ■



Winning Afghanistan For the Long Term

by David W. Barno and John K. Wood



IN FALL 2009, the international endeavor in Afghanistan finds itself in a crisis of confidence. A powerfully resurgent Taliban, escalating NATO casualties and an uncertain outcome to a deeply flawed Afghan election all are militating for a deep reappraisal of the entire international effort. Gen. Stanley McChrystal's assessment, that "the situation in Afghanistan is serious; neither success nor failure can be taken for granted" has further fueled the debate.

Four main factors define the current situation. First, a persistent, resilient and adaptive insurgency that capitalizes on the fears of the Afghan people and the weakness of the Afghan government and its institutions, and strives to outlast the international effort arrayed against it. Second, a lack of trust in the Afghan government and persistent fears of abandonment by the United States and the international community fuels a growing crisis of confidence among the Afghan people. The third factor is a continued lack of focus, or unity of effort, by the international military and civilian efforts. Finally, the vision

for victory in Afghanistan, the "end game," remains unclear to both the international and Afghan actors. Lack of clearly defined aims creates confusion among Americans, our allies and the Afghan people and bolsters the Taliban's confidence.

These four factors threaten our prospects for success and cannot wait to be addressed. The counterinsurgency fight in Afghanistan is winnable, but will demand all of the resolve that the Afghan people and the international community can muster in order to succeed.

Defining Goals

ANY DISCUSSION OF reversing the downward trajectory in Afghanistan must start with objectives. What is "winning" and can we "win"? Different actors in the Afghan campaign have disparate interests and objectives, a reality often less than ful-

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ly understood. The goals of the Afghan government may not be synonymous with those of the international community. The goals of NATO members and the alliance writ large may not be identical to those of the U.S. The goals of the civilian players in Afghanistan—both Afghan and international—may not align well with those of the military forces fighting what most would describe as a deadly counterinsurgency fight—a full-fledged war.

From a U.S. perspective, success in Afghanistan requires a reassertion of American leadership. While such leadership must be exercised through genuine partnership with friends and allies wherever possible, the past years of accelerating decline have demonstrated that a lack of full American attention and an overreliance on other actors will ultimately fall short.

“Winning” in this context equates to achieving overarching objectives in Afghanistan and the region. Policy goals are still under debate in Washington, but key goals should include defeating the Taliban and al Qaeda so they are denied usable sanctuary and prevented from attacking the United States or allies; stabilizing Pakistan as a long-term, economically viable partner, friendly to the U.S. and no longer an active base for international terrorism; preserving the trans-Atlantic alliance with NATO’s role in Afghanistan realigned to support a politically sustainable set of objectives; creating a stable, sustainable Afghan government legitimate in the eyes of the Afghan public, capable of exercising effective governance and in control of its territory; restoring regional states’ confidence of U.S. staying power and commitment as their partner in the struggle against violent extremism, and diminishing the influence of violent extremists while expanding the regional circle of U.S. friends.

These objectives are more detailed and comprehensive than those minimalist

goals often expressed by policy makers, but they are consonant with President Obama’s broad strategic goals to “disrupt, dismantle, and eventually defeat al Qaeda, its allies, and its safe havens in Pakistan, and to prevent their return to Pakistan or Afghanistan.” Achieving this more detailed set of objectives can deliver results outlined by Mr. Obama. Shaping a positive future is far more likely to achieve policy success over the long term than is a purely defensive or “containment” strategy.

In order to accomplish these objectives, the U.S. must work closely with a myriad of partners, first among them the Afghan government, but also the governments of the allies, friends and neighbors who comprise the international military and civilian efforts. Additional stakeholders include a diverse set of actors from NGOs, private entities and international institutions, such as the United Nations and its many agencies.

None of this is new, but what we have discovered is that this diverse mix of sometimes fractious players cannot effectively counter an increasingly powerful enemy without strong U.S. leadership. Only the U.S. can provide the direction required for the success of multifaceted international efforts. The U.S. alone possesses the resources, regional influence and combat capabilities to act as lead nation in all aspects—from facing the growing military threat to the provision of “in-conflict” (versus “postconflict”) reconstruction and development efforts. America recognizes that it has vital interests in Afghanistan and the region; many other nations view their interests in Afghanistan as simply preserving their relationship with the U.S. Regardless, American leadership has the qualities today necessary to catalyze success.

The Taliban leadership’s strategy is to “run out the clock” on international involvement in Afghanistan. They are convinced that they have the initiative, are

winning and can succeed by being the “last man standing” in Afghanistan. History is on their side. Policy debates at home which question our purpose and resolve in Afghanistan—and which constantly talk about exit options—reinforce the Taliban’s confidence. Thus, we must first defeat this strategy by declaring an end state that centers on a long-term U.S. and international presence—diplomatic, economic and military (i.e., robust security assistance combined with limited kinetic operations).

But defeating the Taliban strategy requires more than simple attrition warfare or remote-controlled missile strikes. In addition to sapping the will of the international community, increased violence against the International Security Assistance Force and Afghan forces is also intended to intimidate and increase the uncertainty among the Afghan population. A population-centric counterinsurgency strategy recognizes this and strives to separate the insurgents from the population and increase the “human security” dimension—personal security, health and education, access to resources, governance and economic opportunity. This approach aims to transform the environment and deny the Taliban the opportunity in the societal, governmental and economic spheres to erode the population’s sense of well-being. It requires significant nonmilitary resources, persistence and patience.

ISAF should prioritize the allocation of military forces to counter the Taliban’s strategic targeting of Kandahar City, Khowst Province, and other population and transportation centers. Focused deployments of ISAF and the Afghan National Army to key population centers, while accepting tactical risks in less populated or geographically isolated areas, will help restore security among the people and work toward closing the trust deficit.

Furthermore, the people of Afghanistan understandably have little trust or

confidence in the current Afghan government. We must focus our diplomatic and assistance efforts in Kabul on reforming the “next” government to better meet the people’s expectations, primarily in the area of anticorruption. If the international community is seen by the Afghan people to be blindly supporting a new government that is every bit as corrupt as the current one, our efforts will lack legitimacy in Afghanistan and at home. Internally, re-establishing the legitimacy of the government helps repair the trust deficit. Externally, a credible central government is essential to maintaining the commitment of Western allies and partners. Re-establishing popular trust and confidence in the central government will provide a powerful counterstroke to the insurgency.

The debate between strengthening the central government versus strengthening local capacity must end. Afghanistan requires both a capable national government and workable, legitimate local institutions. Models for such a structure have existed in Afghan history, most recently in the 1960s and early 1970s. Action in this realm must be two-pronged: Kabul and the central government as the “top-down” focus of the international community; and district level “bottom-up” action, enabled and sometimes led by military efforts.

Moreover, military and civilian unity of effort should be established. This is most important at the local level, and if effective, reinforces the restoration of trust between government and people. Gen. McChrystal’s plan will create this local unity of effort for the first time by fusing all players into a whole of collective ownership at district and provincial level. Though this may initially infringe upon Afghan prerogatives, this will be judged by local populations by its benefits to them. Perceptions at the grass-roots level must be altered.

The August 2009 approval by NATO of

an operational headquarters is a significant recognition of what has been a persistent shortfall over the past three years: a lack of operational unity of effort. Further coordination with the United Nations Assistance Mission to Afghanistan and NGOs is necessary to deliver a fully coordinated civilian-military counterinsurgency campaign.

Finally, what is the “end game” for the U.S. in the region? Until we clearly answer this question, we have no sound policy. We do not have a clear definition of success, and worse have signaled that “exit” is the ultimate goal. This is strategically unsound and undercuts any strategy we pursue.

The rationale for staying and winning in Afghanistan has become muddled in the U.S. and among our allies. Several seemingly attractive options are now on the table; the costs of failure attached to each are enormous, yet are rarely articulated by national leaders. The moral imperative of not abandoning the Afghan people, especially Afghan women, to the depredations of the Taliban must be part of this debate. The risks of a regional civil war and a deadly spread of instability into Pakistan must be clearly stated. Finally, the risk of loss of credibility to the U.S. and the international community would have repercussions far beyond the borders of Afghanistan and South Asia and would influence every major foreign-policy issue for years to come.

The fundamental flaw in any U.S. approach to Afghanistan or Pakistan remains the lack of confidence in American staying power. This fundamental uncertainty drives the Pakistanis (and now perhaps Afghans) to weigh all national security decisions in terms of the question: “What will this look like after the Americans leave?”

We must confront these fears by unequivocally asserting our intended long-term presence and posture. Messaging that our long-term goal is “exit” deeply undercuts our influence on all actors and bol-

sters the Taliban’s strategy. We must craft a clear picture of what success looks like.

To Stay or Go?

BUT AT THE root of this debate remains the simple question: Do we stay or do we go? Does the U.S. see its long-term interests in South Asia—India, Pakistan and Afghanistan—as worthy of long-term investment or simply a short-term liability to be cast off as soon as possible? A positive vision of normalized relations among Afghanistan, Pakistan and India remains a better strategic objective than a defensive objective using minimal resources to contain spreading instability and extremism.

Results in Afghanistan will set the terms of further U.S. involvement in the region for a generation. Will American credibility suffer a fatal blow among our regional friends? Are they strong enough to stand alone in the face of a resurgent extremist movement? Will the NATO alliance survive a defeat and withdrawal from Afghanistan? Will our extremist adversaries be catalyzed by their success in ejecting Westerners from this region? Does this victory over the West energize a rebirth of violent Islamic extremism where many see it waning today?

There are no cheap and easy solutions. Short-term gains in avoiding immediate cost in blood and treasure in Afghanistan may well be paid for in longer term and more dangerous threats produced by our departure. There are immense costs associated with withdrawal before objectives are achieved. The risks of alternatives to the counterinsurgency approach outlined by Gen. McChrystal must be clearly and forcefully debated and understood. These risks affect the U.S. role in the region among friends and adversaries and will have a disruptive impact in its oldest alliance and on the credibility of its relationships around the globe. ■



Finding Mutual Interests in Nature

by Vaclav Smil



DURING THE 1950s, Stalinist planners (whose modest slogan was “We order the wind when to blow, the rain when to fall!”) wanted to flip the direction of several voluminous north-flowing rivers of Western Siberia (Irtysh, Ob, Yenisei) and use them to change the Soviet Central Asia into an irrigated communist paradise. Fortunately, Stalin died and Khrushchev had other problems, but before 1960, the megaproject propensities of the Soviet experts working in Mao’s China left a deep imprint on China’s water engineers. Soviet experts helped plan a number of audacious water projects but only one, the first dam across the Huanghe, or Yellow River, at Sanmenxia, was completed before their withdrawal. The dam turned out to be a major disaster, and the rapid silting of the reservoir was solved years later only by creating large outlets at the dam’s bottom and drastically reducing its electricity-generating capacity.

Large hydro projects completed or begun during Mao’s life were relatively small, and the dams at Liujiaxia (1,160 MW on the

upper Huanghe in Gansu province) and Danjiangkou on the Han River in Hubei province (900 MW) have worked more or less as planned. Gezhouba, the first dam across the Yangzi, was started in 1970 and finally completed in 1988. As Deng Xiaoping’s reforms began to make China more prosperous, water megaprojects made a strong return under a policy guided by Li Peng, a hydro engineer educated during Stalin’s last years at Moscow University who also served as China’s premier in 1987-88. His successors not only continued but increased the pace and scope of the effort; without any doubt, China by now has done more than any country to change the flow of its rivers and to dam so many of its major streams, and no other country has so many plans to keep on building them.

The Three Gorges Dam (Sanxia), the world’s largest hydrostation, was completed in 2006, and the aggregate generating capacity of its turbines will be about 60%

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larger than that of the runner-up, Itaipu on the Paraná River between Brazil and Paraguay. And concurrently with its dam megaprojects, China began to build the world's largest water-transfer schemes. The idea of south-north water-transfer project was first proposed under the Soviet guidance during the 1950s, but actual work on the eastern diversion—the least difficult 1,130-kilometer long route that follows the ancient Grand Canal—began only in December 2002. In November 2001, preparatory work on the much more difficult central route commenced. This conduit, about 1,250 km long, would bring water from the enlarged Danjiangkou reservoir on the Han River in northern Hubei and from Sanxia via a large canal snaking along the edges of Funiu and Taihang Mountains all the way to Beijing's Yuyuantan Lake.

The work on the central diversion was accelerated in the summer of 2009 so that both canals would be supplying water to the north by 2014. The eventual annual capacity of the two routes should be close to 30 billion cubic meters. Comparatively, the diversion of the lower Colorado River to California, Arizona and New Mexico has annual capacity of 9.3 billion cubic meters. Indeed, China has technical knowledge and the capital necessary to undertake these megaprojects, and the leadership will ignore foreign concerns as well as some surprisingly bold criticism by concerned experts within China.

Not surprisingly, the projects have also engendered major concerns by China's neighbors. As the megaprojects moved further southwest into Sichuan province, concerns about damming the Mekong River came first. Originating in China's Qinghai province, the 4,350 km river with an annual discharge of 475 cubic kilometres drains a basin extending to six countries: China, Myanmar, Thailand, Laos, Cambodia and Vietnam. The last four countries

belong to the Mekong River Commission which China had refused to join during the late 1980s. In the early 1990s all of them expressed their concerns about planned Chinese dams on the Mekong's upper course.

China went ahead and completed first the 1,500 MW Manwan project in 1996 and then the Dachaoshan (1,350 MW) and Gongguoqiao (750 MW) dams in, respectively, 2003 and 2008; Jinghong (1,750 MW) should come online in 2010. The giant Xiaowan (4,200 MW) and even larger Nuozhadu (5,850 MW) should be completed in 2013 and 2017. Filling of the first two dams caused exceptionally low downstream water levels and the filling of Xiaowan reservoir, with the world's tallest dam (292 meters) would be even more demanding: although the Chinese watersheds make-up only about 20% of Mekong annual water flow, their contribution rises to 50% to 70% during the dry months. In the long run, after the entire series of Chinese dams is finished, there are justifiable worries about the water flows downstream, particularly in the watershed of Cambodia's Tonle Sap, the country's largest source of fish.

It would not be exaggeration or nationalistic paranoia for India to think that the next westward step in China's megaprojects, after damming and diverting the Yangzi and damming the Mekong, is to move into Tibet and start building dams on another of the world's mightiest rivers, the Brahmaputra. From its sources in western Tibet, it flows some 1,800 km eastward at about 4.5 km above the sea level until it makes a 180 degree hairpin bend around the 7,782-meter Namchagbarwa, the tallest mountain of the eastern Tibet, and breaks in a series of enormous gorges through the easternmost spur of the main Himalayan chain before it enters Arunachal Pradesh in India; then it turns south on the borders of Assam and Bangla-

desh and end its more than 2,000-km journey by emptying into the Bay of Bengal.

In 1956, the Austrian physicist Hans Thirring suggested that by building a dam just above the gorges and then tunneling about 16 km under the Doshong Pass, the river's water could be diverted into a valley above Yortong where a series of dams could add to the total capacity of at least 27 gw. In 1996, Richard Cathcart, the American geographer, argued against a massive permanent dam in favor of a low nylon-reinforced anchored rubber bladder that would create a shallow reservoir; afterwards, virtually the entire river's flow could be diverted to a 42-km tunnel with a fall of more than 2.1 km where a series of turbines could generate 240 TWh of electricity a year, nearly 2.5 times as much as Sanxia. But building the world's largest hydroproject in the Yarlung Canyon is easier said than done given the remoteness of the regions, the extreme seismic nature of the bend area (it lies where the giant tectonic plates collide), as well as all the inevitable consequences for the downstream water flow to India.

By 1995, another plan was considered by some in China: using nuclear explosives to excavate a 20-km canal cutting through the mountain range north of the river in order to bring massive volumes of irrigation water north to the arid Gobi Desert. And during the 1990s yet another diversion project began to attract attention, the plan for the westernmost route of the south-north water transfer tapping into the four largest rivers in the westernmost Tibet—Yarlung, Nu Jiang (Salween), Lancang Jiang and Jinsha Jiang—as well into Yalong Jiang and Dadu He in Sichuan and channeling as much as 200 billion cubic

meters of water every year north into the Huanghe. This plan was promoted in the 1980s, the first official route survey was done in 1999. Over time this truly gargantuan scheme received support from the army and from many deputies of the National People's Congress, and publicity was especially bolstered in 2005 with the publication of a book entitled *Save China through Water from Tibet*.

But the scheme has not received any formal official blessing. In November 2006, Wang Shucheng, Minister of Water

Despite projections of future wars over water, water problems have actually been catalysts for cooperation.

Resources, criticized all proposals to divert the Yarlung waters northward in order to feed the third, westernmost route of the massive south-north water transfer, called such schemes “unnecessary, infeasible and

unscientific” and said that the Chinese government has no plans to build a dam on the Yarlung to divert water northward. In May 2009, Mr. Wang, who by that time had retired from the Ministry of Water Resources, repeated the assurances to an international water seminar in Beijing and, meanwhile, the government set up a new national reservation in the Yarlung's grand canyon.

India remains hesitant, and the latest news from Tibet will do nothing to ease its concerns. In March 2009 Beijing decided to invest 15 billion yuan (almost \$2 billion) for environmental protection in Tibet as part of a grand ecological plan that will run until 2030, and the chairman of the Tibetan regional government repeated that no water will be diverted to other parts of China—but at the same time he announced plans to build several big hydropower electricity stations on the Yarlung, Nu, Lancang and Jinsha rivers. And, without any delay, the construction

of the first dam to cut the Yarlung in central Tibet (at Lhokha in Shannan prefecture, about 150 km southeast of Lhasa) should start in 2009. At 510 MW, it will be a relatively small project but it will most likely be followed by bigger dams downstream closer to the great bend. After the decisions to go ahead with such highly controversial and much criticized projects as Sanxia and the south-north diversions it would be most imprudent to assert that the world's greatest canyon will never become a site of a Chinese megaproject.

Indians have no doubt that that is exactly what will happen and, naturally, they are worried more about the oft-denied massive water diversion than about a new hydrostation. In the Aug. 4, 2009 issue of the *Daily Times*, Brahma Chellaney of New Delhi's Center for Policy Research wrote that "the issue now is not whether China will reroute the Brahmaputra, but when. Once authorities complete the feasibility studies and the diversion scheme begins, the project will be presented as a fait accompli." This is a case that combines a deep-seated mutual distrust (albeit repeatedly papered-over during all those official photo-ops of the two premiers), unsettled strategic matters and genuine worries about the adequacy of water supply in two of continental Asia's largest economies that may have been recent paragons of rapid economic growth but that are also both relying on increasingly precarious water supplies.

The principal strategic complication is the unsettled state of Sino-Indian borders. Though the Chinese army withdrew shortly after it took over most of the Arunachal Pradesh during the brief 1962 Sino-Indian War, China still refuses to recognize the old British McMahon line, created in 1914 and unilaterally declared by India as its border in 1947, as the south-

ernmost limit of its territory and it has not formally abandoned its claim to most of the Arunachal Pradesh, claims that extend almost to the northern bank of the west-flowing Brahmaputra and all the way to the eastern border with Bhutan. But the most important factor that will affect water supplies and water policies of the two states—the pace and the eventual severity of global warming—is beyond their control, and still beyond anybody's confident understanding.

There is no doubt that the Himalayan glaciers have been receding, some losing well over 10% of their volume during the last three decades (at the same time, there is good evidence that precipitation in parts of the Himalayas has been increasing). If an accelerated glacier loss were to be combined with greater variability of precipitation then, even if the annual precipitation total remained the same, seasonal water shortages would worsen. If both the glacier and precipitation volumes were in a prolonged retreat, then both countries would have to resort to extraordinary measures to secure their essential water requirements.

Despite those often catastrophic projections of future wars over water, water problems have actually been catalysts for cooperation rather than promoters of violence. Given the commonly inefficient use of water in both China and India through frequent subsidies and ridiculously low prices paid by farmers, who by far are the largest users of water, there is a great deal of room for easing the strains. Still, the greatest uncertainty remains beyond our ken; we need to wait and see to what extent and how rapidly the future warmer climate will undermine or strengthen the human propensity for cooperation—or for confrontation—between Asia's most populous and deeply distrustful, neighbors. ■



The China Factor In Pakistan

by Ziad Haider



P

AKISTAN TODAY confronts two key security challenges: a lethal Taliban insurgency and volatile nuclear relations with India.

Though international attention has focused on the Obama administration's policies to address these challenges, the limits of American resources and influence in Pakistan require other states to collaboratively play a larger role. Pakistan's "all-weather" friend and neighbor, China, has historically enjoyed widespread credibility in Pakistan and has interests at stake there. Both factors could enable it to advance stability in Pakistan while promoting its own aim to become a diplomatic leader.

Sino-Pakistan relations naturally split into four phases. The first spans the establishment of diplomatic ties from 1951 to the middle of the decade. Pakistan was the third non-Communist state and first Muslim state to recognize the isolated People's Republic. Relations cooled in the late 1950s, as Pakistan repeatedly voted with the United States to postpone a vote on seating China in the United Nations. The 1962 Sino-India border war proved the turning

point. The following year, Pakistan signed a landmark boundary agreement with China recognizing Chinese control over portions of the disputed Kashmir territory. The fourth phase of relations began in the 1990s. Since then, the militant backlash in China following the Soviet-Afghan war, particularly in the Xinjiang region, together with the post-Cold War thaw in Beijing's relations with New Delhi, have tested the economically weak yet politically robust Sino-Pakistan relationship.

The Uighur Factor

CHINA'S COUNTERTERRORISM CONCERNS stem from its restive western Xinjiang region bordering northwest Pakistan. Xinjiang is home to nearly 9 million Uighurs, a Muslim people of Turkic origin, among whom separatist sentiment has historically run high. In the 1980s, hundreds of Uighurs crossed into Pakistan, enrolled in radical madrassas, or religious schools, and fought

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the Soviets in Afghanistan. Upon returning to Xinjiang via Pakistan, they joined violent Uighur nationalist groups, even as the majority of Uighurs agitated peacefully. Although there is no evidence that Islamabad supported these groups, Uighur fighters benefited from the militant infrastructure established on Pakistani soil. As a result, China halted renewal of land-based trade agreements, periodically closed down the Karakoram Highway that links the countries, and lodged strong protests with Pakistan's Interior Ministry.

China's fears were compounded with the rise of the Taliban in the mid-1990s. The Taliban and the Islamic Movement of Uzbekistan recruited Uighurs from Pakistani madrassas. Chinese authorities claimed more than 1,000 Uighurs fought in Afghanistan with the Taliban and al Qaeda. In 2002, Pakistan handed over 22 Uighurs to U.S. forces in Afghanistan.

Yet the acquittal of all 22 Uighurs from Guantanamo Bay has underscored human-rights concerns over their repatriation to China (five have been resettled in Albania and four in Bermuda, with talks underway to settle up to nine of the remaining thirteen in Palau). Post 9/11, these concerns seem to be well founded. China has capitalized on the "global war on terror" to launch a "strike hard" campaign in Xinjiang with mass arrests, summary sentencing and executions. These actions have led experts to claim that China has inflated the Uighur threat to consolidate control in Xinjiang. Nonetheless, Pakistani authorities continue their cooperation, closing down Uighur settlements, handing Uighurs to their Chinese counterparts and expressing public support for Chinese policies in Xinjiang following the clashes in Urumqi in July.

Today, the Sino-Pakistan counterterrorism challenge has an internal and external dimension. Internally, China has identified the Uighur East Turkestan Islamic Movement (ETIM) as its principal

terrorist threat. The U.S. claims ETIM has links to al Qaeda and the U.N. has labeled it a terrorist organization. While Pakistani forces killed ETIM founder, Hasan Mahsum, in 2003 in South Waziristan, ETIM continues to plot and conduct attacks such as the alleged killing of 16 Chinese border police four days before the 2008 Beijing Olympics. According to the U.S. Treasury Department, ETIM's new head, Memetiming Memeti, is a member of al Qaeda's Shura Council.

The external dimension of the counterterrorism challenge relates to the safety of the more than 10,000 Chinese workers in Pakistan who staff 60 different companies and contribute to 122 major development projects. From the Gwadar Port in Baluchistan in 2004 and the Gomal Zam Dam in South Waziristan in 2006 to the Swat Valley in 2007, Chinese workers have been targeted and even killed. There is little evidence that ETIM has conducted these attacks. A more plausible explanation is ethnic Baluch or Taliban retaliation against the government for perceived historical injustices and military offensives. In May, the Pakistani government, keen to assuage Chinese concerns, established a high-level committee headed by the National Crisis Management Cell Director-General to ensure enhanced security for Chinese workers.

China remains alarmed by the ETIM-related threat emanating from Pakistan though the roots of its "Uighur problem" lie in repressive policies. Sino-Pakistan counterterrorism cooperation has continued through the signing of agreements, information sharing, joint drills and the handing over of militants. For the moment, China will quietly apply pressure on Pakistan to act while maintaining public solidarity but this discretion may depend on whether attacks in China remain small-scale and whether steps are taken to protect Chinese citizens and prevent the use of Pakistani soil by alleged Uighur militants.

The China Factor

TO EVALUATE CHINA's potential role in tackling Pakistan's counterterrorism challenge and stabilizing Indo-Pak relations, it is important to first examine the nature of Chinese "leverage" in Pakistan.

According to the 2009 Pew Global Attitudes Survey, 80% of Pakistanis view China as a partner (only 9% view the U.S. similarly). China's clout stems from its historic support for Pakistan vis-à-vis India and the perception that it is a nonintrusive and nonexploitative ally. The latter is linked not just to China's softer diplomatic rhetoric but also its aid strategy. Though Chinese assistance to Pakistan pales in comparison to U.S. aid, it has made more of an impact with few strings attached by focusing on long-term financing and large infrastructure projects rather than direct economic aid, which is often squandered by the leadership or on the ground. Just last month, both countries signed a \$1 billion accord to construct 12 dams in Pakistan. From power plants to highways, Chinese aid has built lasting symbols of friendship with clear public dividend.

As such, there is an increasing recognition within the international community that China can significantly contribute to the global effort to stabilize Pakistan. This was evident in April when Ambassador Richard Holbrooke, U.S. Special Representative for Afghanistan and Pakistan, visited China "to share views on the situation in Afghanistan and Pakistan."

Militant safe havens in Federally Administered Tribal Areas (FATA) pose a lethal threat to Pakistan and, transitively, to China. "A stable Pakistan is essential for building a stable Xinjiang," said Hu Shisheng, a South Asia expert at the China Institute of Contemporary International Relations. "A disintegrated or dismantled Pakistan will be a disaster."

China has the unique opportunity to le-

verage its goodwill across the Pakistani political spectrum to generate support for a robust counterterrorism policy. One way in which China can bolster Pakistan's capacity to combat domestic militancies through economic policies. China could invest more in development and energy projects in FATA as a means to undercut Taliban recruitment of impoverished and uneducated youth in the region. Security concerns, however, pose a major challenge to such endeavors, as reflected by the recent decision to suspend construction of Pakistan's largest oil refinery in Baluchistan.

China also has an effective track record in overseas civilian policing. Using its experience in Haiti and East Timor, it could increase training for Pakistani police and counterinsurgency units to complement the \$280 million in scanning equipment for law-enforcement agencies already pledged. At a diplomatic level, China could host a Friends of Pakistan meeting, demonstrating its regional leadership and commitment to Pakistan's long-term stability.

Any such endeavor, however, faces a number of obstacles. First, China's primary concern is the ETIM, not the broader array of militant groups operating in Pakistan and Afghanistan. It may not be willing to push a broader set of targets, squander its political capital, and risk retaliation. Making such a distinction, however, would be shortsighted because the geographical focus of regional groups has the marked capacity to evolve. The evolution of Lashkar-e-Taiba is a good example of this, as seen in the targets and tactics of the November 2008 Mumbai attacks. Indeed, a noted Lashkar publication entitled, "Why Are We Waging Jihad?" specifically references the plight of Muslims in China.

A second obstacle is China's wariness of American presence in the region. On May 8, Lou Zhaohui, Chinese ambassador to Pakistan, publicly stated that China was "concerned over increasing U.S. influence

in the region” and that, “[U.S.] policies and the high number of foreign forces were ‘issues of serious concern for China.’”

In terms of the Indo-Pakistan dynamic that shapes Pakistan’s counterterrorism, Sino-American collaboration may be an important part of stabilizing South Asia. Building on its shuttle diplomacy after the Mumbai attacks, China and the U.S. could jointly engage in regional crisis management, as recently noted by former U.S. National Security Advisor Zbigniew Brzezinski. The coordinated Sino-American response to Pakistani requests for aid last year, diverting it to the IMF, is a potential precedent for such collaboration. China could also use its political capital to help refocus the Pakistani army away from India and toward combating extremism.

On Kashmir, however, China will likely avoid playing an overt or active role in terms of facilitating a settlement. Ideologically, China’s policy of nonintrusion, particularly in light of its “separatist” concerns in Tibet and Xinjiang, precludes such engagement. Moreover, Indian sensitivities regarding China’s possession of disputed portions of the Kashmir territory will further limit Chinese engagement.

Nonetheless, tackling the Indo-Pakistan dynamic is crucial. Attempts will continually be made to disrupt the relationship through terrorism. This will place intense pressure on New Delhi to react militarily, even if only symbolically, with dire regional consequences. The conclusion of the Indian election paves the way for resuming back-channel talks on Kashmir that made great strides under the Musharraf regime but that have been on hold since his resignation and the Mumbai attacks. Their resumption may well be helped by third-party encouragement including from China.

To tackle such sensitive yet critical issues, China may want to operate within a larger diplomatic consensus. U.S. President Barack Obama called for creating just such

a consensus in a March 28 speech unveiling his new “AfPak” strategy: “Together with the U.N., we will forge a new Contact Group for Afghanistan and Pakistan that brings together all who should have a stake in the security of the region—our NATO allies and other partners, but also the Central Asian states, the Gulf nations and Iran, Russia, India and China.”

Such a Contact Group may help facilitate meaningful Chinese involvement in the region. In light of existing envoys to the region from the U.S, the U.K., France, Japan and Germany among others, China’s appointment of a Special Envoy for Pakistan, Zhou Gang, is a welcome step in enhancing policy visibility and coordination.

Since diplomatic relations began 59 years ago, Sino-Pakistan ties remain firm despite China’s evolving relations with India and counterterrorism concerns. Yet as Pakistan confronts its twin challenges, China remains on the sidelines with few signs what role it might play. Indicative of this is a Feb. 23 op-ed in the *China Daily* by President Asif Ali Zardari: “As Pakistan grapples with the threat of terrorism, China can help in this area too... Indeed terrorists have specifically targeted some of our Chinese friends who were working in Pakistan to drive a wedge between the two countries and peoples. The sacrifice of these Chinese citizens for Pakistan’s cause is an abiding reminder to us Pakistanis of China’s friendship with our country.”

The op-ed fails to mention the specific role China may play in helping Pakistan address its security challenges. It sharply contrasts with the myriad appeals for aid, equipment and diplomatic support to Washington made by President Zardari in U.S. media outlets. Despite this, China can and must do more in bolstering Pakistani will and capacity on the counterterrorism front and in advancing regional stability. China’s all-weather friendship demands it, as does its national interests. ■



From Prisoner To Prime Minister

by Colum Murphy



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AITING TO MEET Bangladeshi Prime Minister Sheikh Hasina in her suite in a Manhattan hotel, I hear a baby's cries coming from the bedroom. Ms. Hasina, an aide tells me, is feeding her grand-daughter and will be with me shortly. Ms. Hasina enters the room dressed elegantly in a lime-green *sari*, and settles into an armchair. Behind her is a framed photograph of her father, Sheikh Mujibur Rahman, or "Father of the Nation," serving as a reminder of the bloody past of Ms. Hasina and of Bangladesh. The country's first prime minister after separation from what was then called West Pakistan, his wife and Ms. Hasina's three brothers were assassinated in 1975.

The first time I met Sheikh Hasina, already a former prime minister and leader of the Awami League political party, was in June 2007 in Dhaka. An army-backed interim government had taken power in a bloodless coup d'état just six months earlier, and tensions were running high in the capital of Bangladesh. When we met at Ms. Hasina's home, she was under virtual house arrest, surrounded by

gun-toting policemen and at least one secret service agent charged with tracking her every move.

Months after our interview, the caretaker government launched an anticorruption drive against Ms. Hasina and threw her in jail. She was released shortly ahead of the democratic elections of December 2008, when she won a landslide victory and became prime minister for a second time.

The last two years have seen "drastic changes" in her fortunes, Ms. Hasina concedes. Having gone from prisoner to prime minister, she assures me she is not bitter about how she was treated. On the contrary, she says, the experience has only made her more focused on serving her country: "I am determined and desperate to work for the people of Bangladesh," she declares.

In New York to attend the United Nations General Assembly and related U.N.-sponsored meetings on global climate change, Ms. Hasina is on a mission. She is seeking help for her low lying country that is already prone to natural calamities such as cyclones, flooding and drought. "Bangla-

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desh will be the most affected area,” she explains. “If the sea levels go up then the southern part of the country will go under water.” In such a densely populated country, what can be done to ensure the safety of the people, she asks.

Although Dhaka has drawn up its own plan to deal with the effects of climate change, including raising river banks and planting trees, this poverty-stricken country (estimated per capita GDP on a purchasing-power-parity basis was \$1,500 in 2008) will need to look to industrialized countries for assistance. “The countries that are responsible for this [climate change] should contribute ... they should assist other countries,” she says firmly.

Ms. Hasina lauds British Prime Minister Gordon Brown’s plan, announced this summer, for a climate-change fund for poorer countries of around \$100 billion per year by 2020. “As Bangladesh is the most affected area, so definitely it should get a large share of it,” she says. “Our request is that all the assistance that goes for climate change should not include development assistance. This issue should be totally isolated from development.”

But her demands do not stop here. Should climate change result in the displacement of populations, then developed countries should also be prepared to handle an influx of “climate-change refugees.” “It is their responsibility to give shelter to those people who lost their land and house. Otherwise, where else should they go?” she asks.

Isn’t this just wishful thinking? After all, the international community has not done much in the wake of other humanitarian crises. But she doesn’t budge. “I don’t need to make any demand or argument [to developed countries] ... on humanitarian

grounds they should come forward by themselves—it’s because of them that people will suffer.”

There are plenty of other kinds of suffering in Bangladesh that cannot be blamed on industrialized countries. The litany of Bangladesh’s woes is well known: poverty, illiteracy, malnutrition, disease and low life expectancy. While GDP growth has remained around 6% per year in recent years,

this is not sufficient to provide opportunities for the country’s young and growing population, which currently stands at around 150 million. Corruption continues to hamper economic development. According to Berlin-based Transparency International’s corruption perception index, Bangladesh ranked 162 out of 180 countries in 2007. While the army-backed government came to power ostensibly to curb corruption, the campaign was not very effective—

a fact borne out by the rather modest improvement in Dhaka’s performance last year on the corruption index.

In Ms. Hasina’s mind, however, there is someone else to blame. She remains scathingly critical of her archrival Khaleda Zia and her Bangladesh National Party, which most recently led a four-party alliance government from 2001-06 and of the army-backed government that ruled from 2006-08. “The last seven years for Bangladesh was the worst period of time,” she says. “Because of the BNP-led government, the country got a bad name [for corruption].” And while the army-backed government’s original goal to eradicate graft was a worthy one, its good intentions got thwarted along the way, she adds. As a result, “all its efforts were in vain.”

Not surprisingly, in Ms. Hasina’s eyes the AL seems without flaw. She cites by heart the achievements her administra-



Sheikh Hasina

tions made during its last time in power: reducing inflation from 6.8% to 1.59% between 1996 and 2001, increasing GDP growth to 6% per year from 4%, raising literacy rates to 65.5% from 45%, increasing electricity capacity to 4,300 megawatts from 1,600 megawatts and actively opening up sectors of the economy to foreign investment.

Yet when it comes to her plans for growing the economy during her current term, Ms. Hasina is less forthcoming. In New York she reportedly told a group of business people that Bangladesh wants to mirror the example set by countries such as Vietnam by growing foreign direct investment to \$7 billion per year by 2015, or a seven-fold increase from 2008. She says she wants to move quickly to grow the economy but her attempts are frustrated by the climate of fear caused by the army-backed government's zealous corruption crackdown. Bureaucrats now are scared to take any action in case they are singled out as corrupt. "They cannot work, they don't want to, they are hesitant," she explains.

But disagreements between Ms. Hasina's AL and the BNP are not helping the country progress either. A goal of the interim government was to break the two ladies' stranglehold on Bangladeshi politics that many considered to be eating away at the heart of the country's political system. But the interim government failed miserably. Today, despite the occasional meeting—such as when Khaleda Zia visited Ms. Hasina's ailing husband Wazed Miah in hospital earlier this year (the prime minister's husband passed away in May 2009)—the two very rarely meet, and the animosity between them, as well as between their supporters, still runs high.

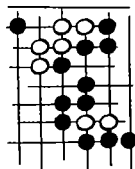
In recent months, a number of parliamentary sessions have been boycotted by the BNP, delaying the country's return to functioning democracy yet again. The BNP also accuses Ms. Hasina of targeting its members in politically motivated anticor-

ruption drives. Ms. Hasina vehemently denies such allegations insisting that differences are "absolutely ideological." Critics accuse Ms. Hasina of pettiness, and say that as victor in the election process she should be magnanimous and extend an olive branch to the defeated BNP. But to her such divisions are an inevitable part of democracy. "In a multiparty system, definitely you will have different ideas, different views," she says. "The differences will remain."

It is tempting to think what could be achieved if the countries' politicians could put their differences aside, albeit temporarily. But the pattern of politics playing out in Bangladesh is one found in other South Asian countries where families such as the Bhuttos in Pakistan and the Gandhis in India rely on the iconic status of charismatic leaders for support. Popularity is guarded jealously and compromise is rare. Ms. Hasina, with her strong connection to the history of Bangladesh remains at the core of her party. And while in recent years calls for internal party reform of the AL, and of rival BNP, were stepped up, nothing much has changed. Those that lead the reformist charge within the AL have been sidelined, allowing Ms. Hasina to maintain a firm grip on power—to the detriment, critics say, of good governance.

Though these flaws persist, Bangladesh's political parties offer the only hope against stemming the rise of antidemocratic forces in Bangladesh, namely Islamist terrorism. On this she is resolute: "We are taking actions against it. Any type of terrorist activity, whether it's in the name of Islam or of any other, it doesn't matter," she says. "Terrorists have no border, no ideology, no religion."

Ms. Hasina herself has been subject to attack: "I know I am risking my life... Around 19 times there were attacks to kill me, but Allah helped me and I survived," she says. ■



A New Great Game In Turkmenistan

by Leland R. Miller



NO COUNTRY HAS risen to prominence with greater rapidity and less fanfare in recent years than Turkmenistan. Once Central Asia's most isolated backwater, the former Soviet satellite, host to enormous oil and gas riches and perhaps the region's most critical strategic perch, has redefined itself as the centerpiece of a new regional order, having become the most critical prize in a new "great game."

While the Afghanistan/Pakistan theater dominates headlines, Turkmenistan has quietly emerged over the past two years as a major priority for both the United States and European Union governments. Just a few years ago, such a statement would have been unthinkable. Since the collapse of the Soviet Union in 1989, Turkmenistan has reveled in its isolationism, maintaining minimal relations with the West but also steering clear of Russian-dominated regional mechanisms such as the Collective Security Treaty Organization, the Shanghai Cooperation Organization and the Eurasian Economic Community—the only former Soviet “-stan” to do so.

Yet economic considerations always guaranteed that Ashgabat's independence from Moscow was mostly illusory. Turkmenistan is home to the world's fourth largest natural gas reserves, far and away its largest export, as well as substantial oil reserves. Russia's historic control over nearly all of the oil and gas pipelines leading out of Central Asia left Turkmenistan with little room for maneuver. So long as Turkmen energy remained subject to a Russian stranglehold, Ashgabat could be independent in name only.

In 2009, however, a combination of several factors—a relatively new regime in Ashgabat, a decline in European energy demand, Moscow's hubris and a greater recognition of the Russian strategic threat by the U.S. and Europe—may finally be altering those dynamics. As a result, the EU, as well as the U.S., China, Turkey and Iran, have intensified their flirtations with Ashgabat, eager to take advantage of growing

~ Mr. Miller, a New York attorney, is a member of the Council on Foreign Relations and an adjunct fellow in international economics with the American Foreign Policy Council.



Russian President Dmitry Medvedev meets with Turkmen President Gurbanguly Berdimukhammedov in Turkmenbashi on Sep.13, 2009.

Russo-Turkmen tensions to end Moscow's near-monopsony on Turkmen energy.

For Europe, expanding its relationships with energy-rich nations such as Turkmenistan is now a matter of strategic necessity, as reliance on Russian energy exports, currently one-quarter of all European needs, has left most of the continent with a dangerous dependency on the Kremlin. In return, the EU is offering Turkmenistan something it desperately wants: the promise of export opportunities not beholden to a Russian veto.

For America, the stakes may be just as significant. This year, U.S.-Russia relations hit a post-Cold War low, emboldening Moscow to oppose important U.S. foreign policy interests across the globe. From imperiling U.S. allies such as Georgia and Ukraine to supporting U.S. adversaries such as Iran (whether by threatening to fuel the nuclear plant at Bushehr or sell Tehran advanced weaponry such as the S-300 strategic air-defense system), Russia has for the first time in decades put the U.S. squarely on the defensive.

With Washington militarily bogged down in Iraq and Afghanistan and consumed with the repercussions of the financial crisis, U.S. policy makers have struggled to develop relatively low-cost ways of regaining leverage over Moscow. By taking advantage of a rare diplomatic opportunity in Russia's backyard—a public

fissure in Russo-Turkmen relations—Washington can assist its European allies' bid for energy independence and send a signal to Moscow that undermining U.S. security goals still comes with considerable costs. Such a policy may also have the benefit of opening up one of the world's most reclusive dictatorships to Western markets, norms and irreversible pressures of reform.

Nestled between Afghanistan, Iran, Kazakhstan and Uzbekistan and boasting 500 kilometers of Caspian Sea coastline, Turkmen territory served as a transit point on the famed Silk Road before the time of Alexander the Great. Yet under the two-decade dictatorial rule of its former leader Saparmurat Niyazov, who renamed himself Turkmenbashi or "Leader of the Turkmen," Turkmenistan has largely ignored the region's geopolitical tug-of-war and allowed its massive energy reserves to remain untapped. Instead, Niyazov focused inward, banning nearly all forms of entertainment, renaming the calendar after his family members, and penning a spiritual guide, the "Ruhnama," which he institutionalized as the country's guiding text. An ability to parrot the Ruhnama became the most important qualification for the country's civil servants, as well as required reading for all schoolchildren.

Shortly after Niyazov's death in December 2006, a 52-year-old former dentist named Gurbanguly Berdimukhammedov ascended to the leadership, leveraging both political and tribal allegiances—like Niyazov he is a member of the Tekke tribe—to consolidate power and orchestrate, in true Soviet fashion, an "election" to the presidency. Despite his obscure background, Mr. Berdimukhammedov's rise was generally welcomed by the populace, who were intrigued by his Gorbachev-like promises of greater openness and reform in the health, education, agriculture and information sectors.

Mr. Berdymukhamedov's record, however, has been spotty at best. Upon taking office, the new president restored the calendar's old names, eliminated laws prohibiting circuses and the opera, and modernized the educational system, adding foreign languages and international finance to the curriculum and allowing an increased number of students to study abroad. In January 2008, the Turkmen government officially abandoned its dual exchange-rate system, a move intended to make the country more investor friendly. And in September 2008, a new constitution was approved, abolishing Niyazov's rubber stamp People's Council in favor of a two-tier system that divides power between the president and an elected parliament. On July 26, Turkmenistan held for the first time, with the assistance of the United Nations Development Programme, elections for centrally controlled "local" legislative councils.

Yet most of these ostensible moves toward democracy are a sham. There remains only one presidentially approved political party in Turkmenistan, potential parliamentary candidates are often arbitrarily forced off candidate nominating lists that are still controlled by the president, the media is both heavily censored and state-controlled, and the judiciary remains a tool of the executive. In 2009, Freedom House rated Turkmenistan the "worst" of 29 postcommunist countries it surveyed—a noteworthy achievement considering it was competing with countries such as Uzbekistan and Belarus. Sixty percent of the population, according to the Associated Press, remains in poverty.

While the new Turkmen leadership is quickly learning the art of paying lip service to an international community eager to court it, its actions have yet to catch up with the rhetoric. Entering 2009, the country remained mired in its Soviet past, a repressive, isolated state with even more vestiges of Stalinism than Russia itself.

The Gas War of 2009

RUSSIAN STATE-OWNED GAS giant Gazprom typically purchases around 80% of Turkmenistan's total annual gas exports at its border, after which Gazprom resells them to, or swaps them with, Ukraine and Europe. During the boom years of the late 1990s and most of this decade, this system worked satisfactorily enough for both parties: Moscow had a guaranteed source of supply with a locked-in profit, and Ashgabat had a guaranteed buyer for its exports. Without Turkmen gas, Russia would lack the supplies to fulfill its extensive export commitments to Europe.

The recent global financial crisis, however, dramatically altered the market for economies reliant on commodity exports. As factories shuttered their doors and production ground to a halt, European demand for Russian gas—and thus Russian-supplied Turkmen gas—plummeted. Amid sky-rocketing energy prices during the first half of 2008, Gazprom agreed to a rise in the price it pays for Turkmen gas to \$130 per 1,000 cubic meters, up from \$100. By 2009, however, that inflated rate made the bulk purchase of Turkmen gas economically unviable. As a result, when the major gas export pipeline from Turkmenistan "accidentally" exploded in April, Moscow announced the cessation of all purchases of Turkmen gas until further notice rather than repair it.

For Turkmenistan, which relies on these gas exports for almost 50% of its gross national product, Gazprom's power play was intolerable. Convinced that the explosion was retaliation for its flirtations with the West, as well as to force the renegotiation of existing contracts, Ashgabat denounced the cut-off (which costs it approximately \$1 billion a month) as a "gas war." Just days earlier, Turkmenistan's Ministry of Foreign Affairs had issued a press release declaring that diversifying

gas export routes was now a “cornerstone of our country’s economic strategy.” At an energy summit in Ashgabat two weeks after the explosion, Mr. Berdymukhamedov became more explicit: To realize this goal, he noted, “Turkmenistan needs to create a new system of connections with Europe.”

Frustrated by its own dependency on Russian energy, the EU has become a particularly enthusiastic partner. In January 2006, on orders from the Kremlin, Gazprom cut off natural gas supplies to Ukraine, and thus its downstream partners in Europe, due to a contractual dispute during one of the coldest winters in recent memory. Russia supplies Europe with about one-quarter of its gas, 80% of which transits through Ukraine, and Gazprom’s actions left large pockets of Eastern Europe unable to run their businesses or heat their homes. Shell-shocked European governments began calling for a renewed focus on energy diversification—a strategy pursued with even greater urgency after another Russo-Ukrainian dispute in January 2009 resulted in the cut off of 20% of Europe’s gas supplies for two weeks.

In July 2009, the EU finally announced a \$1.4 trillion Preventive Action Plan intended to wean Europe from a dependency on Russian energy. The program prioritizes the expansion of Europe’s energy grid and calls for more than \$200 billion for natural gas projects, pipelines and network links. Though the document avoids taking direct aim at Russia, its imperative is clear: Europe must eliminate the bottleneck in Ukraine and expand direct energy ties with Central Asia.

The most appealing option for both Europe and Turkmenistan—and certainly the one most threatening to Moscow—is a pipeline project called Nabucco, named after an opera whose theme is liberation from bondage. Under the Nabucco plan, a consortium including the United States, EU, and Turkey has proposed the creation of a

3,300-kilometer energy route—fueled partly by large volumes of Turkmen gas—across the Caspian Sea to Turkey and then on to Europe, bypassing Russia and Ukraine entirely. In July, President Berdymukhamedov announced, to the Kremlin’s fury, that Turkmenistan was prepared to make 10 billion cubic meters (bcm) of gas available annually for Nabucco. A week later, Ashgabat signed a contract granting Caspian Sea exploration rights to the German firm RWE AG, a member of the Nabucco consortium.

Should the consortium’s plans be realized, construction of the Nabucco pipeline will begin in 2011, with gas scheduled for delivery in Europe starting 2014. Turkmenistan and Azerbaijan, and possibly Iraq, are the most likely source countries (although Kazakhstan, Egypt and Iran are also technically feasible options), with the pipeline slated to pump at least 8 bcm of gas annually, increasing to 31 bcm per year, or 5% of EU consumption, by 2020. On July 13, the governments of Turkey, Austria, Hungary, Bulgaria, and Romania signed a landmark transit agreement in support of Nabucco, prompting Turkmenistan and Azerbaijan to enter into talks to settle a territorial dispute of their own in the Caspian Sea. Resolution on that issue will clear the way for construction of an under-sea pipeline between the two countries, allowing Turkmenistan to send gas directly to Turkey to fuel the Nabucco line.

Despite this momentum, Moscow’s fervent opposition assures that Nabucco is far from a *fait accompli*. Moscow views closer EU-Turkmen energy ties, and the Nabucco pipeline in particular, as fundamental threats to the viability of its energy industry, as well as an unwanted invasion into its geopolitical backyard. Russia has thus responded in three ways:

First, Moscow has cranked up the pressure on Ashgabat by sending official delegations almost weekly to press its point. Under orders from Russian Prime Minis-

ter Vladimir Putin to “step up work with Turkmenistan,” June alone saw visits from both Russian first deputy prime minister and Gazprom Chairman Viktor Zubkov as well as Gazprom CEO Aleksei Miller.

Second, Moscow is pushing an alternative pipeline project called South Stream, which would carry Turkmen gas across the Black Sea to Europe. For Russia, South Stream offers at least two key advantages: First, it would allow Turkmen gas to continue to be marketed as “Russian” gas, allowing Gazprom to meet its existing supply commitments in Europe. Second, because there probably exists only enough supply for one such pipeline, it would prevent Ashgabat from exporting gas through Nabucco or any other direct commercial route to Europe. While energy experts have almost uniformly determined South Stream to be financially infeasible, not least because no single party appears interested in funding the extraordinarily expensive underwater pipeline, the project provides Moscow with a handy rhetorical alternative: Pledge fealty to the idea of South Stream, the Kremlin has ordered, not Nabucco.

Third, the Kremlin is working hard to co-opt potential members of the Nabucco consortium before they can commit their resources. A Russian gas deal with Azerbaijan in July, whereby Baku committed to restart the flow of Azerbaijani gas to Russia in 2010 (albeit for a modest 500 mcm annually), was a blatant attempt to undercut the Nabucco project, as was Russia’s Surgutneft Company’s acquisition of partial control of the Hungarian company MOL (a Nabucco consortium member) in March. Russia is pushing similar tactics in Bulgaria and Turkey.

MORE THAN A century has passed since British strategist Sir Halford J. Mackinder declared that control of the Central Asian heartland meant control of the world. What Rudyard

Kipling once dubbed “the great game” of power diplomacy in the region is still being played out today, this time in the hermit kingdom of Turkmenistan.

Although it has languished for decades in Central Asian obscurity, EU-Russian energy tensions, the war in Afghanistan, and pipeline politics have all combined in 2009 to make Ashgabat a potentially powerful new ally. The U.S., EU, Turkey, Russia, China and Iran all are vying for influence; the only question is at whose expense future gains will be made.

New gas finds, moreover, are certain to make Turkmenistan an even greater player in the world of energy diplomacy in the future. In early 2008, the Turkmen government estimated its onshore hydrocarbon reserves to be 21 billion tons of oil and 25 trillion cubic meters of natural gas, with additional offshore reserves in the Caspian Sea of up to 12 billion tons of oil and 5 tcm of gas. More recent estimates, however, indicate that this may just be the tip of the iceberg. According to an October 2008 audit by the British consultancy Gaffney Cline & Associates, reserves at the hitherto-untapped South Yolotan-Osman gas field—which the Chinese will soon be exploring—may alone contain between four and 14 tcm of gas, with other Turkmen fields yet to be audited. Should even the most conservative audit estimates prove accurate, Turkmenistan could soon become the second largest gas exporter in the world behind Russia.

The recent financial crisis has wreaked havoc on the world’s great powers, but it has also created a handful of new strategic opportunities. By encouraging Turkmenistan’s energy and geopolitical diversification vis-à-vis Russia, the U.S. and its allies can not only support EU energy needs and regain lost leverage over the Kremlin, but may also have a once-in-a-generation chance to alter the region’s political dynamics for good. ■



REVIEWS



**SHANGHAI'S BUND AND BEYOND:
BRITISH BANKS, BANKNOTE
ISSUANCE, AND MONETARY
POLICY IN CHINA, 1842-1937**

by Niv Horesh

Yale University Press, 256 pages, \$48

Reviewed by DENIS MCMAHON

IT'S NOT EASY being a foreign bank in China. Beijing's World Trade Organization promise to treat foreign and local banks equally, while nominally observed, has in practice resulted in rules that greatly restrict foreign banks' freedom of operation even as they barely register as a nuisance to local banks.

It is perhaps inevitable that China wants to support its banks' transition from instruments of government policy to market-oriented institutions by only gradually exposing them to competition. And the Asian financial crisis likely imbued a degree of wariness about free flowing foreign capital and the international financial institutions that peddled it.

But how far back does China's institutional memory go? Do the sins of foreign bankers, committed in Republican-era China and the dying days of the Qing dynasty, inform the decision making of post-Deng financial market regulators more than 70 years later? Given much of China's modern identity is premised on redressing a century of humiliation at the hands of foreign powers, this idea may not be so far-fetched.

Mr. McMahon is a Shanghai-based reporter for Dow Jones Newswires.

According to Niv Horesh, lecturer in Chinese Studies at the University of New South Wales, a rich vein of Chinese academic writing blames foreign banks, primarily British, for retarding China's industrialization from the 1840s to the 1930s. How? By issuing bank notes.

After Beijing granted foreign powers "concessions," islands of foreign jurisprudence carved out of the Chinese mainland in the wake of the Opium Wars, foreign banks in China issued their own paper bills, backed primarily by reserves of the local metallic currency. Despite having been the first to invent paper currency centuries earlier, China not only lacked a universally accepted bill of exchange, but regional scrips issued by warlords and local governments were repeatedly debased when the authorities succumbed to the temptation of printing their way out of financial difficulty. Instead, silver and copper coins were the currency of choice, and even then they were only recognized on a regional basis.

Injected into such an environment, British bank notes were a hit among expatriates and local Chinese alike. The treaty port concessions where the banks were based were islands of stability during a particularly turbulent period of Chinese history, and the prudential regulation and strict reserve requirements imposed on the banks from London were unrivalled by any Chinese competitor.

While there was clearly a demand for modern, trustworthy banking institutions, Mr. Horesh writes that the controversy arises from whether the note issuance, unregulated by any Chinese authority, "enabled foreign banks of issue

to divert much needed capital from the domestic economy.” *Shanghai’s Bund and Beyond* doesn’t weigh directly into this debate; Mr. Horesh argues this would require research into the breakdown of how the foreign banks allocated their long-term loans. Rather, his contribution is to build a better foundation for the debate, wading through British archival material from HSBC and Standard Chartered to develop a better picture of the size of British bank note issuance and how that varied with political developments over the period.

Mr. Horesh argues that the issuance was likely too small to affect China’s overall economic trajectory. In the absence of any Chinese alternative—at least until the 1930s—the presence of the British may have done more good than evil overall, providing a model of prudential management that Chinese banks would later emulate. Moreover, foreign bank notes were seldom recognized once they strayed too far from their place of issue, as was the case with any other scrip, limiting their influence to the handful of treaty ports. And for HSBC at least, bank note issues in Hong Kong always took precedence over the mainland, yielding higher returns and often prompting the bank to scale back issuance in Shanghai in order to have sufficient reserves to meet the need for additional notes in the British colony.

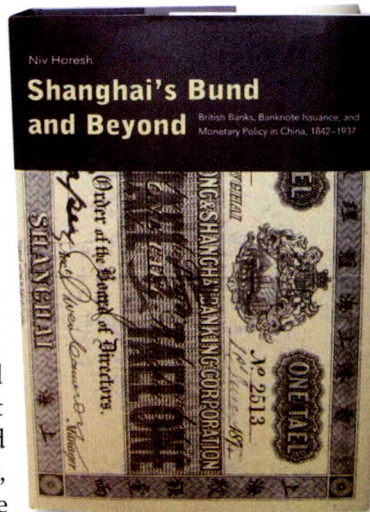
But for all its curious insight into the strange world of precommunist finance, *Shanghai’s Bund and Beyond* reads a lot like a doctoral thesis that was sent straight to the printers by an over-enthusiastic supervisor. While no doubt exceptionally well

researched, it’s suited for specialist readers only. It demands more than a passing familiarity with the inner workings of monetary systems, and some general knowledge about what else was also going on during this period of Chinese history is also a must.

Even then, whereas the book might have a place in academe, making a significant contribution to a small part of a much larger debate, it is less appealing to the lay reader looking either for a narra-

tive arc, or even a sense for why it all matters. Have foreign banks’ previous foray into China colored the way they’re perceived in Beijing? Did they slow China’s development? Was the end of British note issuance in Asia the death knell of British colonialism?

Whereas foreign banks once followed the gunboats into China, setting up branches free from domestic oversight, they now engage the highest levels of their own governments to lobby Beijing into giving them more access. Beijing is clearly wary of letting them in on their own terms, but an historical engagement with China certainly hasn’t proven a barrier to entry this time round. HSBC and Standard Chartered (its predecessor, Chartered Bank of India Australia and China is singled out by Mr. Horesh as being the second largest foreign note issuer after HSBC) are in the vanguard of foreign banks in China today. The time when they were free to issue their own banknotes is an intriguing chapter of China’s modern history, but *Shanghai’s Bund and Beyond* all too intentionally focuses on the technical aspects of issuance to do the period justice.



**COURTESANS AND OPIUM: ROMANTIC
ILLUSIONS OF THE FOOL OF YANGZHOU**

by Anonymous

Translated by Patrick Hanan

Columbia University Press,

344 pages, \$27.50

Reviewed by JONATHAN MIRSKY

JOSEPH CONRAD'S GOAL for his own work is an apt description of this book's ability to transport the reader into another world: "Above all I want to make you see." Written in 1848 and chock full of images, the novel is wonderfully translated here by Patrick Hanan, emeritus professor at Harvard, whose academic life has been devoted to studies and translations of traditional Chinese fiction. This one was a tough task. In his introduction Mr. Hanan says that it freely uses "local words and phrases, some of which are not yet to be found in any dictionary."

Though the book fits into no known "canon," Mr. Hanan deftly shows how it includes or refers to important poems, some of which come from a collection which no longer exists. He observes that its nearest relationship is with China's best-known novel, the 18th century *Story of the Stone*, also known as *The Dream of the Red Chamber*. The novel's anonymous author sets out to warn readers of the traps, tragedies and illusions of high-class brothels as well as the pitfalls of opium. Along the way he lays out a world of high and low official corruption, essential to our under-

standing of how elite courtesans and opium smoking, both illegal, could exist for a single hour.

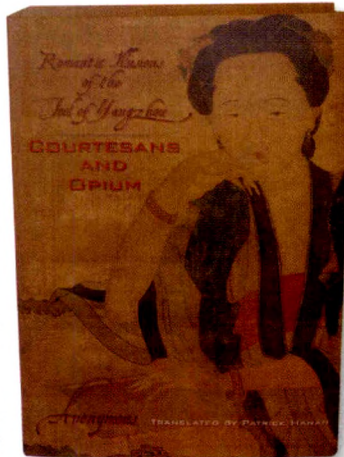
In the opening look at Fragrance, a 15-year-old courtesan of bewitching allure capable of true love and passion—and as greedy and heartless as they come when it becomes necessary for her survival, the author writes "her hair was coiled in a queue fastened by a two-or-three ounce braid of the finest quality, the tassels of which hung down beside her right temple. She had four springs of roses in her hair, some thirty blossoms in all. Four hairpins were inserted at various angles, one of fine silver, gilt, and kingfisher feather and three ear-pick hairpins with silken pads depicting the Eight Treasures."

And that's just her hair.

The description of the rest of her outfit down to her shoes takes up a page, and we learn that Fragrance is "romance personified." The author writes, "The sheer wantonness of her pose was more than words could capture." She wows Lin Shu, one of the five sworn brothers who are the main male characters. All are middle-class men,

who seem always to have plenty of money which they have embezzled or borrowed; even though they are deep in debt, they spend their days banqueting, singing, reciting poems, and spending large sums on pretty prostitutes with whom they fall in passionate love.

Some of them also have unattractive, shrewish wives, understandably since they are aware of how their husbands spend their endless hours and days away from home. The prostitutes, who have been sold as children into the brothel world and can be bought out of the brothels for huge



∞ Mr. Mirsky is a London-based free-lance writer and a former East Asia editor of the Times.

sums, are accomplished players of the lute, sing like larks, recite poems, and are adept in bed. For several chapters it is all great fun, the men devoted to each other, using the brothels they frequent, as Mr. Hanan, notes, like clubs where they deepen their friendships, lend money, praise each other for their sexual conquests, use opium and are scrupulously courteous with their delightful prostitute companions.

The author sounds a note of warning. These girls can “beguile you into considering your wife as a stranger and these places [the brothels] as your permanent home.” Worse still, “The strange thing, however, is that no prostitute has ever been known to express any pleasure, even when her request is met.” Heartless? No. These girls, as they slowly reveal, must go with any man, old or young, handsome or ugly, who pays for their bodies, and like working girls to this day, are always in danger of maltreatment or worse. They have only a few years to accumulate some money or meet a man who will make them his concubine or maybe even a second wife.

It all turns either ugly or tragic. Lin Shu, the young wastrel, passionately loves Fragrance. His parents sent him to the city to buy a concubine so she can bear the family a son and heir, but he buys things for Fragrance, eats and drinks, and treats his sworn brothers. Dunned beyond his powers to stall his creditors, he flees to his parents. The delightful Fragrance now shows a snarling, violent, side—no less real than her initial loveliness and humor—and returns to turning tricks.

But there is also another prostitute who really loves her weak but devoted client. When he is dying, she kills herself so she can welcome him in the next world. This terrific novel swings back and forth from sordid to poignant, taking the reader back into this lost but, at Patrick Hanan’s hands, vividly recovered world.

LISTENING TO GRASSHOPPERS: FIELD NOTES ON DEMOCRACY

by Arundhati Roy

Haymarket Books, 230 pages, \$20

Reviewed by EUGENE DATTA

THE FIRST RUNNER-UP in the global pageant of “emerging powers,” India is also “the world’s largest democracy,” a title that the winner of the pageant and India’s No. 2 nemesis, China (Pakistan being No. 1), cannot boast. Meanwhile billionaires are more numerous in India than they are even in Japan, the world’s second largest economy—India ranks fourth in billionaire population after the United States, Germany and Russia. With a 300 million-strong middle class growing non-stop in cash and confidence, India’s mainstream press can hardly stop gloating over the unfolding miracle.

Seen from the outside, it amounts to a spellbinding twist in the longstanding national narrative. A repository of ancient wisdom that famously places a higher premium on spiritual wealth than on physical assets, “Incredible India” is expected to maintain a GDP growth rate of over 6% as most of the world still reels under the recession. Though China’s growth figures are twice as impressive, the fact that India is a “democracy” trumps the Chinese story. And it is precisely this magic talisman democracy, this magic talisman, which the Man Booker Prize winner Arundhati Roy brings under close scrutiny in her latest collection of essays titled *Listening to Grasshoppers*.

“What have we done to democracy?” she asks. “What have we turned it into?”

Well, a travesty is the short answer. India’s relentless repression in Kashmir

Mr. Datta is a writer who has published poetry and essays in publications around the world. He divides his time between India and Germany.

(which over the past 20 years has cost almost 70,000 lives, not to speak of the several thousand disappearances, and the tens of thousands who have been tortured, raped and maimed) makes the Han Chinese in Tibet look benign. And like a good old democracy, India has been consistent in its use of a democratic institution to perpetuate its military presence in the Kashmir valley. Ask why there needs to be “an armed soldier for every 20 civilians” in Kashmir (making it the world’s largest military occupation), despite “winning” the people’s mandate, and the answer, shouted in unison by the government and the “free” press, will be militancy.

Militancy is a problem, but to use it as a pretext to continue the brutal subjugation of an entire people is a bigger one. It violates the human rights of the Kashmiri people, sending the most indignant and hopeless of them into the arms of militants. And those who do not resort to armed militancy chant “freedom” at mass rallies, or even “Jeevey Jeevey Pakistan (Long live Pakistan),” as they did on Aug. 18, 2008, three days after India’s Independence day.

“There was a green flag [the national flag of Pakistan] on every lamppost, every roof, every bus stop and on the top of chinarr trees,” Ms. Roy writes in an essay titled “Azadi” (Freedom). “I asked a young woman whether freedom for Kashmir would not mean less freedom for her, as a woman. She shrugged and said, ‘What kind of freedom do we have now? The freedom to be raped by Indian soldiers?’ Her reply silenced me.”

Sadly, given the iron grip of religious and political majoritarianism on mainstream Indian life, few would be either silenced or shamed by such testimonies. The establishment would dismiss them as Pak-

istan-inspired anti-Indian propaganda.

But the injustice that India, armed with its clunky, bureaucracy-burdened, profoundly corrupt institutions, metes out to its people is hardly confined to Kashmir. It has led to new insurgencies in places like Jharkhand, Orissa and West Bengal. While the Mumbai stock market soared and India wowed the world with its phenomenal growth rate, thousands of farmers committed suicide in several states. By 2007, the number had reached a staggering 182,936. “While state granaries are bursting with food that eventually rots,” Ms.

Roy writes, “starvation and malnutrition approaching the same levels as in sub-Saharan Africa stalk the land.” As proud Indians, ensconced in their plush urban cocoons, speculate on how many more of their kind will

make the Forbes annual billionaires list, 700 million people (more than double the number of middle-class Indians) are crushed daily under the weight of an unremitting poverty.

The democracy that enables it all is loudly extolled by politicians, the corporate clans (maharajas of the new India), and a ferociously nationalistic media machinery. Dissenting voices—all but a handful of the most potent and persistent ones, such as Arundhati Roy’s—are drowned out in the cacophony of collective self-congratulation. It is the same democracy that condoned the slaughter of a few thousand Sikhs on the streets of Delhi in 1984 following Indira Gandhi’s assassination by her Sikh bodyguards and the 2002 state-sponsored genocide in Gujarat. Even today, no one knows exactly who was behind the burning of the train that killed 58 Hindu pilgrims and triggered the calculated massacre of over 2000 Muslims. Not

The essays in Listening to Grasshoppers draw attention to the murky roles India’s political elite ... played in its recent history.

only have none of the masterminds been brought to book, but Narendra Modi, the chief minister under whose auspices the pogrom happened, is still in power, lauded “for his faith in the free market.” The essay “Democracy: Who’s She When She’s At Home?” is as compelling a read today as it was seven years ago when first published shortly after the 2002 carnage.

Barring a piece lampooning George W. Bush (though brilliantly written, it slightly dilutes the collection’s seriousness of purpose) and a fictional text titled “The Briefing,” the essays in *Listening to Grasshoppers* draw attention to the murky roles India’s political elite, its judiciary and law enforcement agencies, along with its corporations and media, played in its recent history. Though the essays were written as “urgent, public interventions at critical moments in India,” her grip on the facts is firm. Despite the searing indignation, Ms. Roy’s voice retains its native eloquence and incisive logic as it tells the story of the other India, equally incredible but for reasons that hardly prompt celebration. For anyone interested in India, whether they are in the dark or in denial, *Listening to Grasshoppers* is a must read.

**TO THE LAST ROUND:
THE EPIC BRITISH STAND ON THE
IMJIN RIVER, KOREA 1951**
by Andrew Salmon
Aurum Press, 352 pages, £25

Reviewed by DONALD KIRK

NEAR THE END of this account of one of the great battles of the 20th century, Andrew Salmon notes that “the Korean War has faded almost totally from the public memory.” It may be difficult at this stage to right that wrong, but he makes a terrific effort in this copiously re-

ported attempt at setting the record reasonably straight on one of the bloodiest, most fearfully dramatic few days in the Korean War when British troops stood up against a Chinese force many times their size in April 1951 and very nearly survived.

The 29th Brigade, notably the men of the Gloucester regiment, “the Glorious Glosters,” as they were later named, were ultimately driven from “Hill 235,” a 235 meter high outcropping of rocks, dirt and scrawny trees and bushes south of the Imjin River, which shoots down from North Korea before turning abruptly west toward the Yellow Sea.

A Seoul-based journalist writing for several foreign publications, Mr. Salmon sticks to the facts gleaned from interviews with aging survivors, after-action reports and published first- and second-hand accounts. He creates an engrossing tale that runs chronologically from the excitement of getting orders to go to Korea, the long voyage, the initial exposure to fire, the mad flight from Pyongyang before advancing Chinese troops, the unfolding battles for varying pieces of territory and the years in prison camps for those who were lucky enough to have been captured rather than killed.

The book is filled with detail enough to win the attention even of those for whom military histories may seem irrelevant when stacked against social and political analysis. Mr. Salmon writes in colorful style of an enemy storming “in blackness,” of “smoke clouds hanging over Pyongyang,” of “men in slit trenches” as “the freezing night passed quietly,” of face-to-face encounters with the enemy, of officers brewing coffee amid “the thunder of guns,” of “the cacophony of the battle” and defiance in the face of incoming fire.

It’s exciting stuff, and Mr. Salmon goes

Mr. Kirk is a journalist who has covered Asia since 1965.

to great lengths to make clear that “the glorious Glosters” were not the only ones to go through fire and brimstone in the raging skirmishes and climactic battle. There were the Fusiliers, the Hussars, the Belgian Battalion, the Ulster Rifles, and the individual companies, W, X, Y and Z, among others.

Mr. Salmon is careful not to ascribe blame for catastrophe—but also not to avoid controversy. He presents the arguments for how the brigade commander might have anticipated the need for retreat, how the Americans might have moved effectively to support their British allies, how troops might have been positioned differently. He does not engage in expose-type cant that holds the Americans responsible for a monumental disaster. Nor does he paint the British commanders as omniscient warriors who did all possible, wisely and heroically, against a force that was so far superior in numbers as to have been unstoppable.

This admirable attempt at giving the British the credit they deserve for holding back the tide at a critical turning point in the war is not without flaws, though. The author gets bogged down in the complexities of shifting fronts so that the reader will not quite know where the troops are in relation to one another, the relationship of one of those fought-over “hills” to the next one, and the web of roads, trails and streams over which the troops had to pass to advance, retreat, reinforce and communicate.

Sometimes, the explanations sound more like mathematical formulae that few will understand without leafing back and forth through the pages. “Y would attack along the valley floor while a platoon of W Company assaulted southward along the ridge,” he writes in an effort at simplifica-

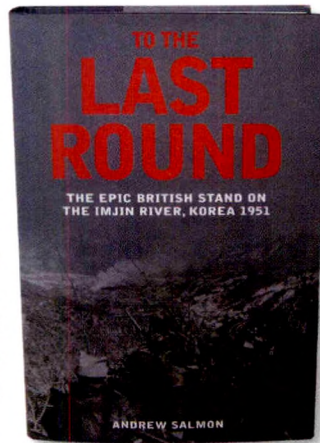
tion. “In preparation, Y company, officerless apart from its OC, was reinforced with officers from other sub-units.” Got it? I didn’t, but then again I have similar problems with other military histories. Mr. Salmon’s writing, moreover, is complicated by his frequent use of footnotes. Should the reader scrutinize the footnotes or move on? Either way, the effect is to slow if not stop the flow of words. Much of the footnoted material could have been woven into the text.

Mr. Salmon also makes errors. He tells us “the war ended with a ceasefire on al-

most the same line as it had started.” Well before the shooting stopped in July 1953, U.S., South Korean and other forces had pushed far above the 38th parallel, the arbitrary division agreed on by the American and Soviet sides at the end of World War II, from the mountainous central region to the eastern coast. On the west, the North Koreans, thanks to their Chinese ally, held on to Kaesong, an important junction

city that had once been the capital of all “Koryo,” and the land mass jutting westward below the 38th parallel. The North-South line, sanctified by a demilitarized zone stretching 155 miles across the entire Korean peninsula, was established with the signing of the truce at Panmunjom, next to Kaesong, in July 1953.

The British, by their valiant stand, had much to do with enabling American and South Korean forces to recover ground lost above and below the Imjin. It is even possible, in the long hindsight of history, to say that the British did not actually lose the battle of the Imjin. Rather, they staged a terrible bloody retreat that was soon reversed as Chinese forces, a week into their fifth offensive and out of supplies, were driven northward.



Mr. Salmon makes a couple of other errors that should not escape notice. He tells us that the peninsula is "about sixty miles wide" at the narrowest point on the front down which Chinese forces advanced in the last days of April 1951. The Korean peninsula, as any map will verify, is about 150 miles wide below the 38th parallel. Mr. Salmon may have meant to write that the peninsula was 160 miles wide at the line of the offensive. The width is important in considering what was happening elsewhere, to the east and west, in battles involving Americans and South Koreans.

Near the end, as Mr. Salmon writes about the undoubted significance of the British stand in the overall context of the war, he notes that the U.S. command in Seoul now offers four battlefield tours including one to what came to be known as "Gloster Hill," another to Chipyeong-ri, not far from where the British fought. A third goes to the scene of the landing of U.S. marines at Incheon that broke the North Korean hold on South Korea and a fourth to "Taskforce Walker," "the first U.S. combat unit committed."

But there was no "Task Force Walker." Mr. Salmon has confused the name of General Walton Walker, the U.S. commander who died in a jeep accident during the retreat from Pyongyang, and that of Lieutenant Colonel Charles B. Smith, whose "Task Force Smith" was decimated by advancing North Koreans in the first week of July 1950.

Such errors are understandable in an all-encompassing account that seems to leave little uncovered, or at least unmentioned. His descriptions of the suffering endured by prisoners of war under North Korean and then Chinese control are graphic and moving. His story of visitations by the Australian leftist, Wilfred Burchett, is priceless. I met Burchett during the Vietnam War when he was living under the care of Prince Norodom Sihanouk in Phnom Penh. He was a nasty man,

shamelessly courted by fawning Western journalists. At a trial in Australia at which Burchett sued a politician for character defamation, Mr. Salmon quotes a former POW shouting, "[Burchett is] a bastard and a traitor, and he should be shot."

Incredibly, Mr. Salmon more or less avoids ideological bias. His purpose is to tell the British story—one overlooked aspect of a "forgotten war." If there is a bias, it's that this book is about the British. He writes of one storied battalion's service against the French in the late 17th century and, a century later, in "the American war, where it fought at Bunker Hill." Where I come from, we call it "the Revolution."

**TO LIVE OR TO PERISH FOREVER:
TWO TUMULTUOUS YEARS IN PAKISTAN**

by Nicholas Schmidle
Henry Holt and Company,
272 pages, \$25

Reviewed by IAN CHESLEY

THE SWAT VALLEY of northwest Pakistan is emblematic of the dilemma of "Af-Pak," as South Asia is abbreviated these days in American and European policy circles. The governments of Afghanistan and Pakistan are desperately fragile, and they have sought to calm restive areas that lie outside their control by co-opting their enemies. In Afghanistan, there have been repeated efforts to reach out to the "moderate Taliban" and integrate them into the national and local government as a way of reducing violence.

In Pakistan last winter, the government made an attempt at reconciliation by calling a truce in Swat with the radical Islamists,

— Mr. Chesley studied Central Asia at Harvard and was awarded a doctorate in Slavic languages in 2007.

which resulted in even more closures of schools, the official imposition of strict Islamic law and a sense that the insurgents were on the march to other regions. Intense political pressure from Washington made it clear that this was not the kind of integration of they had in mind.

Until fairly recently, the Swat Valley was a mountainous resort area; visitors referred to it as “the Switzerland of Pakistan.” Today, Swat is another example of the result when the Pakistani government wages its own version of counterinsurgency. That has meant the use of devastating force and ruthless repression. In spring 2009, the Pakistani army undertook an operation that emptied the valley of almost the entire civilian population—estimates put the number of refugees in the millions.

The operation was declared a success a few months later. The radicals no longer owned Swat, but victory came at a huge cost. Returning refugees were terrified by the possibility that the radicals might come back and that the army would not know where to stop its campaign to exterminate them. There are recent allegations that government forces are assassinating large numbers of Swatis, whose bodies are turning up on city streets overnight.

In 2007, Nicholas Schmidle, a young American freelance journalist, traveled up the Swat Valley to meet Maulana Fazlullah, a leader of the Pakistani Taliban. Mr. Fazlullah’s men had taken over the mass media in Swat, such that his nickname became “Maulana Radio.” The government was nowhere in sight, the police were in retreat, and public lashing kept people in line. After the Swat operation this summer, Maulana Radio remains at large.

To Live or to Perish Forever is Mr. Schmidle’s first book, penned after he won a two-year fellowship to travel to Pakistan, learn Urdu and write about what he saw. The book’s title comes from an essay by Chaudhry Rahmat Ali, an early promoter

of the concept of Pakistan, but during some of Mr. Schmidle’s more daring forays into the North-West Frontier, it equally applied to his own precarious position when half-way through a Taliban checkpoint or a in the midst of a public rally.

Though framed as a collection of episodic reports on Pakistan, the book at times more closely resembles the generic conventions of the expatriate memoir: Mr. Schmidle is a young American who wants “to learn about this troubled, nuclear-armed country, and about myself.” And while the chapters are organized around recent crises and fundamentalist leaders, the reader sees brief flashes of the author sipping Southern Comfort with his connections in military intelligence, visiting his well-to-do friends’ horse farms and sitting in the comfortable rear seat of a Land Cruiser.

The author’s self is on prominent display throughout, and he has enough of a sense of humor about himself that he generally avoids the trap of overtly dramatizing the life of an expatriate journalist. He playfully asks Abdul Rashid Ghazi, the late leader of the Red Mosque in Islamabad, if the sword hanging on the wall is intended for him. (Daniel Pearl, the Wall Street Journal reporter murdered in Pakistan in 2002, casts a shadow that is used to amp up the Hitchcock-like suspense near the end.)

Mr. Schmidle goes beyond the storylines that dominate Western media outlets, which tend to gravitate toward the border with Afghanistan. For instance, the Red Mosque debacle, which began as a confrontation between Ghazi’s militants and the government but ended in a bloodbath, shook Pakistan profoundly. Former President Musharraf’s heavy-handed tactics at the Red Mosque signaled the beginning of the end of his government’s legitimacy. Mr. Schmidle’s intimate reporting of these events alone makes the book worthwhile.

Likewise, the southern province of Baluchistan is rarely in the Western media

spotlight, though it has its own long-running separatist insurgency, and its capital is widely recognized to be the home of the "Quetta Shura," otherwise known as the Afghan Taliban leadership. In addition, Mr. Schmidle also travels to Gwadar, which Pakistan trumpets as its own Indian Ocean version of Dubai. Local Baluch are skeptical that they will see any benefits of the promised development, as the central government strives for control over provincial resources like natural gas.

There are some rough areas in *To Live or to Perish Forever* that are to be expected in a rookie effort. In Mr. Schmidle's first chapter, he refers to the Red Mosque leader as "one radical dude," an unfortunate stylistic choice that makes Abdul Rashid Ghazi sound like a particularly impressive surfer. Thankfully this forced effort to make Pakistan understandable to a callow American audience later gives way to a more sophisticated tone that is much easier to read.

Overall, though, this is a minor blemish. In an age of parachute journalism and two-minute news segments, Mr. Schmidle's dedication to the important stories and willingness to delve deeply into Pakistan are gifts to the reader.

WHOSE IDEAS MATTER?: AGENCY AND POWER IN ASIAN REGIONALISM

by Amitav Acharya
Cornell University Press,
189 pages \$39.95

Reviewed by HAL HILL

THE AUTHOR OF this concise and extremely well-referenced study asks an important question: "Why do some emerging ideas and norms find acceptance ... while others do not?" The issue is examined with reference to "two puzzles" concerning Asian post-war insti-

tutional architecture: why there isn't a regional multilateral security organization and why Asia's regional institutions remain "soft." Amitav Acharya employs the concept of "constitutive localization" from international relations theory, referring broadly to the process by which international norms are adapted to suit local circumstances and actors.

The notion that Western style regional institutions would not work effectively in Asia is intuitively appealing. They need to take account of local identities, needs and capacities. As Mr. Acharya clearly shows, from the Asian Relations Conference in New Delhi in 1947 onward, Asian leaders have sought to establish their own version of cooperative relationships, independent of the colonial powers. Mr. Acharya is correct in his assertion that studies of Asian regionalism which fail to take account of the key actors and their interests offer little insight on the process and its outcomes.

There are numerous reasons why the Western international relations models and approaches have not been illuminating. Asia's early post-colonial leaders emphasized the importance of nonintervention in each other's affairs. Though committed to the United Nations and its philosophical underpinnings, they were hardly present at the 1945 drafting of the U.N. Charter. Besides West Asia and the Arab Middle East, the only Asian countries present were India, still a British colony at the time, and the Republic of China.

Great power rivalry during the rapidly escalating Cold War era further divided the region, and also enhanced the appeal of neutralism and non-intervention. Thus, for example, SEATO could never be an effective security agreement; though it attracted significant Asian membership, it was wide-

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ly perceived as being an instrument of U.S. foreign policy.

If early Asian attempts at cooperation and U.S.-inspired initiatives were unsuccessful, what was the alternative by the late 1960s? Mr. Acharya takes us through the process of developing genuine Asian attempts at cooperation. Of these, the Association of Southeast Asian Nations, formed in 1967, has been the most durable. Yet its central tenets—consensus-based decision-making, an aversion to legalization and the avoidance of any form of supranational bureaucratic structure—also explain its painstakingly slow progress. This so-called “Asean Way” may frustrate outsiders, but it is the key to understanding the organization’s longevity.

Similarly, the process of broader Asia-Pacific cooperation, most especially centered on APEC, has been able to progress only as fast as all its member countries have permitted. It is an important achievement to have an annual summit of its leaders, but specific agreements have been thin on the ground. For example, the debate as to whether economic cooperation should take the form of a preferential, and hence discriminatory to nonmembers, agreement, or one emphasizing “open regionalism,” has still not been settled even though the first APEC summit was held 20 years ago. Nor have the forums relating to defense and other matters proceeded very far. The attempt to create an Asian Monetary Fund in 1998 was still-born (though elements of it remain), while the initiative to provide emergency financial support during crises has not yet gained effective traction.

But it would be a mistake to conclude that there has been no progress. Mr. Acharya mentions a few examples of incremen-

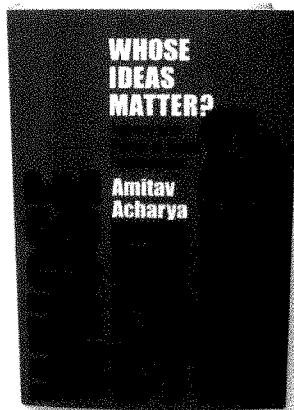
tal movement: the growing frustration in Asean towards Burma; coordinated responses to region-wide challenges such as the 2004 Tsunami and SARS; and the adoption in 2007 of an official Charter. Informal exchanges in business, education, the arts and much else are also progressing.

A former Indonesian foreign minister once remarked that the 700 or so Asean meetings each year are good for airlines and hotels. Who could disagree? There is a tendency for outsiders to dismiss these meetings simply as talk shows for underem-

ployed bureaucrats. But there are no instant press-button solutions to building distinct regional identities and approaches among countries that were mostly at loggerheads less than two generations ago. Confidence building and trust are essential ingredients. It also matters that Indonesia, a dominant power in Southeast Asia, has been preoccupied with its domestic, economic and political chal-

lenges since 1998. Moreover, attempts at regional cooperation elsewhere in the developing world, notably in Africa, Latin America and the Middle East, have not fared any better, and in most cases have lagged further behind.

Does it matter that regional initiatives are generally slow to develop and lack teeth? Providing that, first, the various forums contribute to greater regional harmony and understanding, second, that there is tangible evidence of some sort of progress, and third, governments get on with their main function, of reforming to provide better governance, then arguably the present arrangements are satisfactory. What is of concern, however, is the pace of policy reform almost everywhere has slowed over the past decade, and regional trade agreements have proliferated at the expense of



the more important multilateral framework under the long-stalled Doha Round. It makes little sense for the region's leaders to be signing "free trade agreements," when they are not reforming at home and apparently have little intention to.

Whose Ideas Matter is a useful contribution to our understanding of the drivers of Asia-Pacific cooperation. It helps us appreciate why the institutional arrangements in Europe and North America have not been emulated in Asia. The volume is not, however, an easy read. The jargon may be the tools of trade of international relations specialists, but it will tend to deter the general reader.

We also don't get much practical guidance from the author as to how to move things forward more effectively. Take for example, the four big unresolved issues facing the world, at least in the view of this reviewer: the threat of nuclear proliferation, the need for coordinated action on climate change, the unfinished Doha Round and some sort of G20-based set of measures to prevent another financial crisis. Asia has a vital stake in all four, but Mr. Acharya's framework suggests that the region will not become a coordinating driver of change. In that case, it is surely the major challenge for Asian leadership. Photo ops, declarations, charters and summits will only go so far.

TOKYO: A CULTURAL HISTORY

by Stephen Mansfield
Oxford University Press,
288 pages, \$16.95

Reviewed by ALVINO-MARIO FANTINI

TOKYO, AS MOST visitors will attest, can be a difficult city to understand. It is made up of several "sub-cities" and has a rather complex layout. More importantly, as Stephen Mans-

field explains, it is a city that is constantly changing and reinventing itself, blending past and future together.

Mr. Mansfield, a writer and photojournalist with 20 years of experience living in one of Tokyo's outer districts, leads the reader on a historical survey of how this mega-city evolved from a modest fishing village on the shores of the Sumida River. His approach is largely chronological, from the earliest human settlements of the Neolithic Age to the present.

The book's nine chapters are divided into periods, including the flowering of Edo culture (1638-1707), the Meiji Restoration (1868-1912) and the tragic growth of a bellicose, imperial Japan (1923-1945). Throughout its many centuries, earthquakes, fires and other natural calamities continually forced urban planners to rebuild the city—each time with new aesthetic considerations. Nature, Mr. Mansfield writes, did "most of the demolition work."

While replete with historical and topographical details, Mr. Mansfield emphasizes the changing urban culture—especially as it spread from the city's commercial districts to the broader populace. He ably traces the rise of medieval literature, Noh plays and haikus (along with the publication of risqué diaries of noble women), all of which was accompanied by the development of flower arranging and the tea ceremony.

Mr. Mansfield also describes, with great attention to detail, the impact of Western influence on the city's architecture and popular fashion. He examines the changes wrought by the arrival of Commodore Perry's "black ships," the occasional resistance to foreign influence and even the spread of manga culture in the late 20th century. One could say that the story of Tokyo is really the

— Mr. Fantini is a free-lance writer based in Vienna.

cultural history of Japan, writ small.

Mr. Mansfield refers to an array of artistic and literary names, both Japanese and foreign. This is not just name-dropping, for he picks his way through a variety of works, illustrating points with extensive use of extracts from novels, poems and diaries. His command of Japanese literature, as well as the literature on Japan, is impressive.

Interestingly, the brothels and pubs of the city's ancient "pleasure quarters"—the Yoshiwara district, today called Nihonbashi—indirectly contributed to the spread of the city's artistic and literary output. The sexual escapades of rich, dissolute patrons and the "women of the floating world" (i.e., prostitutes) during the 16th and 17th centuries, and the personal dramas and love triangles that often arose from these liaisons, were frequently memorialized in woodblocks and paintings, poems and plays. Mr. Mansfield suggests that it was the spread of these salacious literary works that contributed to the blurring of class distinctions between the shogunate, the merchant class and the common people.

The excerpts magnificently bring to life the daily toil-and-grind of life in the growing city—its noises and smells, its clatter and chaos. But cultural changes—and the onset of modernity—are the underlying theme. For example, after explaining the ancient female custom of shaving eyebrows and blackening teeth (with an iron oxide solution), Mr. Mansfield quotes the account of dramatist Hasegawa Shigure (1879-1941), who returned home one day to find that his household had adopted the newly imported ways: "The mother I now saw before me had the stubbly beginnings of eyebrows, and her teeth were a startling, gleaming white. It was the more

disturbing because something else was new. The new face was all smiles, as the old one had not been."

Many modernizing changes were ushered in by rulers themselves. During the late 19th century, Emperor Mutsuhito began to consider the use of a top-knot a vulgar remnant of feudalism. In 1872, he decided to cut his off, and began wearing Western-style clothing during official events.

Mr. Mansfield illustrates the forward-looking mood at the time by providing the words of an obscure song: "If you tap a shaven and top-knotted head you will hear

the sound of retrogression ... but if you tap a close-cropped head of hair you will hear the sound of civilization and enlightenment."

Other interesting details emerge of Tokyo's past and its ancient rulers. Tokugawa Tsuna-

yoshi (1646-1709), the fifth shogun of the Tokugawa dynasty, was a young "spoilt dilettante" with occasional homosexual proclivities. Failing to produce an heir, the young ruler became convinced that the root cause was his mistreatment of dogs in a previous life. This inspired the shogun to pass an "Edict for Loving All Things."

Mr. Mansfield explains that "[d]ogs were henceforth to be addressed as O-inu sama (Honourable Mr. Dog) and accorded burial rites matching their new station." In addition, anyone who beat a dog was put to death immediately. Accounts of the time "tell of Edo Castle swarming with countless spoilt and pampered canines."

These wonderful details alone are worth the cover price. Nevertheless, the book might have benefited from additional editing or a tighter structure, and it is a bit repetitive at times. It also would have been helpful to include additional maps (there is only one small-scale map of the city) show-

The book might have benefited from additional editing or a tighter structure, and it is a bit repetitive at times.

ing the location of the avenues, buildings and gardens that Mr. Mansfield describes. Many of these landmarks have changed; others are simply no longer there.

On this point, Mr. Mansfield provides one of the more poignant passages: "The transformation of [the] feudal city into a modern one came at a very high cost. Configured around a natural landscape of hills, valleys, ponds and rivers, the city's trees and woods were now cut down, undulating areas flattened, watercourses filled in, place names changed." While the loss of these "panoramic vistas, greenery and fine scenery" did not erase people's memory of the city's past, most of Tokyo was "soon unrecognizable." For those fascinated by modern-day Tokyo, Mr. Mansfield's book will help them understand the present; for others, it will make them yearn for a distant past.

**CHINA'S EMERGING
FINANCIAL MARKETS:
CHALLENGES AND GLOBAL IMPACT**
*Edited by Zhu Min, Cai Jinjing and
Martha Avery*
Wiley, 400 pages, \$120

Reviewed by RICK CAREW

AFTER BEING SLEEPY for so long, finance in China has become an exciting industry.

Since 1978, China's economy has exploded, with growth running at an average annual 10% clip. Until the start of this decade, however, China achieved this without the financial infrastructure common to most Western economies. The domestic stock markets offered few quality companies, and manipulation by insiders at the

expense of public investors was common practice. Bond markets barely existed and private equity couldn't exit from the handful of deals struck. China financed its growth almost solely through lending from the state-owned banks.

Over the past 10 years much has changed. China's financial infrastructure is starting to look more like other major markets, with a diverse set of asset classes available to investors and insider manipulation less prevalent if still not stamped out. State banks continue to play a central role in funding the biggest companies, but up-and-coming private firms are now attracting significant amounts of capital from both foreign and domestic investors through private equity deals and the capital markets.

The collection of essays in *China's Emerging Financial Markets* gives voice to the cluster of Chinese government officials who have been at the heart of this change. While there are a handful of Western economists and financiers mixed in, the key contribution of this book is getting Chinese officialdom to put its views on the record. This is almost certainly the best survey of official views on China's financial overhauls published in English.

The authoritative tone of the book can be credited to the political clout of its lead editor Zhu Min, vice president of Bank of China. Mr. Zhu himself is one of the key actors in China's financial reforms over the past decade, leading the restructuring and listing of Bank of China, the second of China's "big four" state banks to make an initial public offering.

The essays do a good job of explaining "what" happened in the course of China's financial overhauls. For example, top Chinese brokerage CITIC Securities Chairman Wang Dongming clearly explains the consolidation of China's securities industry in terms of movement to a more efficient, market-based sector. But Mr. Wang says little of

Mr. Carew is a reporter with the *Wall Street Journal*, based in Hong Kong.

the political infighting involved in reaching that conclusion or the personalities that made it possible.

Similarly, China Investment Corp.'s Chief Risk Officer Wang Jianxi argues forcefully for the commercialization of China's banking sector. He provides a window into the views of China's central bank and Central Huijin, a shareholder in the banks, on the best route to reform. The People's Bank of China and Huijin believed establishing banks as legal entities with shares, introducing corporate boards, and introducing foreign shareholders ahead of listing shares would improve bank governance and reduce government interference in banks' operations.

However, Mr. Wang gives little hint that the chosen course advocated by the central bank proved controversial. As usual it is left to the foreigners to remind readers that politics do exist in China and affect policy outcomes. Nicholas Howson, former managing partner at law firm Paul Weiss in Beijing, discusses the battle that took place between China's central bank and Ministry of Finance to control the course of the state bank reforms. He also discusses the role of the Communist Party Committees within banks and their dominance over corporate boards of directors. The disconnect between the actual power structure of Chinese banks and the non-disclosure of the Party Committee's role in IPO prospectuses and annual reports highlights a fundamental risk for investors in China.

That risk began showing in the balance sheets of Chinese banks early this year as they pumped a huge amount of cash into China's economy in response to calls from Beijing to help revive growth. A similar

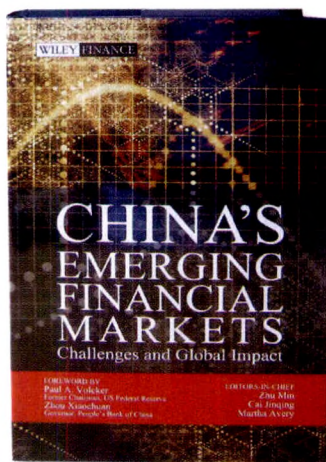
swiftness of capital deployment couldn't have been achieved in the U.S. and Europe, highlighting one of the advantages of a centrally planned economy for macroeconomic management. However, it's an open question whether someday shareholders will have cause to rue this Party interference in business decisions.

Interestingly, while the majority of the essays eschew mentioning the politics involved in decision-making, most do contain a political agenda underlying their arguments. Most of the officials writing these essays are considered firmly pro-market and pro-foreign involvement in the financial sector. The essays mostly appear to have been written before the global financial crisis turned nasty in 2008 and make some awkward comments about the superiority of risk management at Western banks and the wisdom of Chinese banks investing overseas (those deals have mostly

gone sour). In some ways those reflect the superficial way in which the titans of global banking were viewed before the crisis.

This collection is a good bookshelf companion for bankers and investors actively participating in China's markets. It's also a handy cheat sheet for those who have an upcoming meeting with Chinese officials and want to understand their views. However, the book may not appeal to a broader audience because of its mostly technical and academic writing style.

China's financial markets will continue to evolve and China watchers can hope that a new edition or subsequent offering by this volume's editors will address how China navigated the financial crisis and the role it will play in the global financial system going forward. There's much to say. ■



SINGAPORE'S HIDDEN HEARTLAND

by Ben Bland

THE CAR WEAVES along the winding country lane, cutting a narrow path through the lush tropical vegetation. As well as the occasional dog ambling sleepily down the roadside, we pass farm after farm producing everything from vegetables to goat's milk and even crocodiles. We reach the summit of a short incline from where the gently-undulating landscape stretches out in front of us, punctuated only by farm buildings and electricity pylons.

Briefly, it's almost possible to imagine that I'm in one of Asia's expansive agricultural heartlands such as Malaysia's Cameron Highlands or Vietnam's Mekong Delta. But the frequent road signs warning people away from state land and urging trespassers not to enter "protected areas" at risk of being shot give the plot away.

Welcome to Singapore's last remaining slice of rural life: the Kranji countryside. The Southeast Asian city-state may be better known for its banks, shopping malls and sprawling public housing estates but here, in the northwestern corner of the island, Singapore's hardy farmers struggle on, producing 18,000 tons of vegetables, 47 million chickens, millions of eggs and 5,000 tons of fish each year.

"There's no PAP up here—we're not prim and proper," quips Ivy Singh-Lim, president of the Kranji Countryside Association (KCA), as she pokes fun at Singa-

pore's ruling People's Action Party, which has maintained a tight and, critics say, stifling grip on power since Britain granted self-rule in 1959.

"Singapore should not try to become a global city because we will bloody implode," she continues. "We need to put aside our progress and prosperity model and look at Singapore as a country with a hinterland."

"Back in the 1960s, all of our chickens, eggs, pigs and fish and 40% of our vegetables were grown locally," Ms. Singh-Lim laments. "But the land here was neglected and this place almost became a lost valley because of the focus on urbanization."

Ms. Singh-Lim believes that Singapore lost much of its "*kampong* spirit" as villages and farms were bulldozed and their residents moved into the towering government apartments that now house more than 80% of the population. But, as the 60-year-old sips a whiskey on the rocks at 3:30 in the afternoon in the café that adjoins Bollywood Veggies, her farm, she insists that Singapore's countryside can still offer "solace to a weary soul."

BACK IN THE 1960s, Singapore was home to some 20,000 farms spread across more than 14,000 hectares of land. After 40 years of concerted economic development and industrialization, just 228 farms remain today, taking up a mere 700 hectares, or around 1% of Singapore's land area.

Many of those farms are located in Kranji, nestled between the mangrove

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swamps of the Sungei Buloh Wetland Reserve and the Tengah Air Base, one of Southeast Asia's most important military installations.

With such a limited area available for agriculture, and land prices and wages much higher than in all the surrounding countries, it is not easy for Singapore's farmers to turn a profit. So, as in many other rural communities in the developed world, they have turned to tourism—or what they call “agritainment”—to prop up their sagging balance sheets.

Bollywood Veggies might be the biggest producer of bananas and sugar cane in Singapore but it is not a productive farm. It brings in revenue from visitors, who come for tours of the neatly-laid out rows of fruit and vegetables or a meal at the “Poison Ivy” bistro.

“Mostly these aren't productive farms but hobby farms,” notes William Ho, a 43-year-old quail farmer who doubles as a countryside tour guide. “If the government will assist us and finance real farming then we won't have to rely on tourism and can become real producers.”

Not all of the Kranji farms are open to the public; the Long Kuan Hung Crocodile Farm, for example, prefers to keep its 9,000 reptiles, bred for leather and meat, behind closed doors. But for those who have taken the agritainment route, it typically provides a sizable chunk of their total income.

“About 40% of our revenue comes from farm visits and the margins are actually much higher than with farming,” admits Chang Su-Yang, marketing executive at Aero-Green Technology, which runs one of Singapore's most hi-tech farms.

Using “aeroponic” agriculture—whereby vegetables are grown in air rather than soil and are fed through a nutrient-rich mist—the company's 35 greenhouses churn out 20 tons to 25 tons of butterhead lettuce and other ready-to-eat salads every month, supplying 60% of the Singapore market.

The practical application of aeroponics, which minimizes the use of water, energy and human labor while almost halving the average production time, was pioneered by Singaporean horticulturalist Lee Sing Kong. It is ideally suited to crowded city-states such as Singapore where space is at a premium and overheads are high.

This innovative approach draws in 20,000 paying visitors to Aero-Green every year but the farm is still no cash cow. “People in Singapore like their salad crunchy and fresh and the demand is bigger than what we can supply but we can't afford to expand,” explains Mr. Chang. “We could build multi-storey, stacked aeroponic farms if only we had the cash.”

It's a refrain that I heard time and again as I meandered through the back lanes of Kranji talking to the cash-strapped farmers. But, thanks to persistent lobbying and the growing threat of a world food crisis, their prospects could finally be starting to look a little brighter.

THE WORLD HAS long been sleepwalking toward a food crisis, fueled by a rapidly rising population, underinvestment in agriculture and growing pressure on vital water supplies. Last year's soaring food-price inflation may have subsided because of the global recession but, most economists agree, prices are only going one way in the longer term. Meanwhile, food security is set to become ever more important because of the increasing imbalance between supply and demand.

Sensing the possible difficulties ahead as a big importer of food, the Singapore government recently revealed plans to shore up its food supplies by diversifying its overseas food sources, enhancing its rice stockpiling system and by supporting local farming.

Mah Bow Tan, minister for national de-

velopment, wants to increase domestic food production so that Singaporean farmers can meet 30% of the local demand for eggs (up from the present 23%), 15% of the demand for fish (up from 4%) and 10% of the demand for leafy vegetables (up from 4%).

He pledged to set aside land for these types of farms over the next 20 years and said he was setting up a "Food Capability Development Fund" to support research in food production and to boost the farming industry's development. All good news for the farmers, one may think, but many reacted cautiously, warning that it was likely to take some time before these proposals were translated into firm policy.

"Following the recent announcement it seems that the government understands that you can't just eat money," comments Ms. Singh-Lim. "And one thing that's true of Singapore is that if there is the political will to do something, then it will be done."

"But the minister of national development is interested in building flats. We need a minister of agriculture who can get the buy-in of the local farmers."

The skepticism of the farmers is understandable given their feeling that they have regularly been sidelined by a government focused on urban development.

"My dad is one of the oldest farmers still alive, at 85," says Mr. Ho. "We used to own lots of farms but all of my dad's land was compulsorily acquired by the government in the name of defense, so now we have to lease back what we can."

Yeo Lian Huat, vice-president of the KCA and at 60, another veteran Singapore farmer, tells a similar story. A graduate of

Singapore's now-defunct farm school, he used to run a pig farm before the government phased out this traditional Chinese industry in the 1970s and 1980s because of concerns about possible contamination of the water supply. Then he moved into chicken and flowers before starting a koi carp farm after realizing that there was growing demand for ornamental fish in Malaysia and Singapore.

Wearing a zebra-print shirt and shorts, Mr. Yeo speaks defiantly of the ongoing struggle to carry on farming in Singapore. "In 1996, I was the first fish farm to open to the public and the idea was to educate the

market and make youngsters more interested in fish farming," he says in Hokkien, the lingua franca of Singapore's overwhelmingly Chinese farmers. "But there was a lot of fuss from the government. It was very skeptical about new ideas like this."

Since coming together under the KCA ban-

ner and the irrepressible leadership of Ms. Singh-Lim, the farmers have won some important concessions from the government, giving the lie to the received wisdom among many Singaporeans that the government will reward only those who lend it their full support while cutting off those who make any kind of independent stand.

First, the KCA persuaded the government to give farmers a freer hand to build cafés and restaurants on the land, which is all leased from the state; this would allow them to attract more visitors.

Now, after much effort, the KCA has finally convinced the Singapore Tourism Board (STB) to help promote the area and earlier this year it launched a successful



joint marketing campaign—called Go Local—which brought in at least 10,000 extra visitors in a month. “The STB now realizes that a lot of tourists want to see the real Singapore, not just a copy of Las Vegas or Disneyland,” says Ms. Singh-Lim.

Transport links are one of the farmers’ major remaining bugbears. Several miles from the nearest station on Singapore’s efficient Mass Rapid Transit network, it is very difficult to get to the Kranji farms without a car. The farmers initially asked the transport minister for a new bus service but their request was turned down.

“So we just paid for it ourselves,” says Ms. Singh-Lim. “All of us put in what we have, with the richer farmers paying more. The camaraderie among the farmers is tremendous, it’s like an old English village.”

Having been “born rich” to one of Singapore’s biggest landowners, Ms. Singh-Lim makes an unlikely champion for the country’s farmers. After buying a plot of land in Kranji on which to build a new house she decided to help the farmers push their case to the government because “rich people must invest in their own country.”

WATCHING THE OLD farmers sing Hokkien gangster songs as they down their beers at a party to celebrate the success of the Go Local campaign, it’s clear that their esprit de corps is not in doubt.

The problem, as with traditional industries anywhere in the world, is what happens when it’s time for the next generation to take over.

“Most of those willing to farm are dead or have given up and live on a housing estate,” bemoans Mr. Yeo. “This new gov-

ernment fund is the last chip to gamble with if you want to rekindle farming in Singapore. The government needs to move now.”

Fortunately for Mr. Yeo, his own son is an enthusiastic partner in the family business. While the pool of new farmers is dwindling, there are others willing and able to follow in their parents’ footsteps.

When she graduated from the National University of Singapore three years ago, Wan Xiao Xi, a pretty but feisty 26-year-old, decided not to climb the corporate ladder, as most bright Singaporeans do.

Instead, Ms. Wan opted to join her family firm, which runs the island nation’s only frog farm, supplying meat for a peculiarly Singaporean delicacy, frog porridge.

“I had been helping my dad out on a part-

time basis while I was at university so it was a very natural thing to work here full time,” she says. “Although I still have to do mundane tasks like cleaning, I’m my own boss so I’m not at anyone else’s beck and call.”

“We need to get more young people involved in farming but it’s hard to find people willing to work here because it’s so far away from the city.”

Securing the next generation of farmers will not be easy in a country where kids are rarely, if ever, seen detached from some form of electronic gadget. Ms. Singh-Lim is mindful of the scale of the challenge but, despite her criticisms of the government, is reasonably optimistic.

“There’s still hope that we can reconnect our young people with their roots,” she concludes. “We have never instilled a love for the land in our people. Loving your country is not just about defending it—you need to love it even in the good times.” ■

Transportation is one of the major remaining bugbears. It is difficult to get to the Kranji farms without a car.

Feet of Nature

CHINESE HAVE AN idiom, “drawing a snake and adding legs,” which roughly corresponds to the English expression “gilding the lily.” But how would one draw this snake? A Chinese woman in the city of Suining found the freaky creature in her home one night “working its way along the wall using his claw.”



Fry in the Ointment

MCDONALD'S JAPAN IS under fire for a marketing campaign lampooning a certain Mr. James, a hapless, bespectacled American who represents a fictitious McDonald's fan club called the “Nippon All-Stars” and professes his unwavering love for the fast-food chain through pidgin Japanese. In a letter to McDonald's, FRANCA, a “human-rights group concerned with the rights of non-Japanese residents in Japan,” finds the whole thing highly regrettable. The group, comprised of humorless white people who speak Japanese, is organizing a boycott of McDonald's on the grounds that the ad campaign is undermining years of campaigning for their civil rights.

No Good Deed Goes Unpunished

HERE IS a tale that explains why you should never attempt to help strangers in China (or expect strangers to help you). It can be

against the law, as a hapless driver found out after he agreed to drive a man who claimed to be sick—the good Samaritan fell victim to a traffic police sting supposedly intended to nab illegal taxi drivers. After paying a 10,000 yuan (\$1,465) fine, he eventually got his car back. This jibes with what we've been hearing from elsewhere in China, that police extortion rackets are on the rise.

Marketing to Drooling Idiots

MERCEDES BENZ IS usually thought of as a purveyor of high-class motorcars, so TT was surprised to receive an email from



the company's Indian subsidiary promoting its new special edition C-class sedan as a toy for the slack-jawed masses. This isn't a car to be appreciated by refined gentlemen who might share a bottle of Grey Poupon mustard. Rather it's a garish purple monstrosity for the *nouveau riche* to “drool” over. Does the headquarters in Stuttgart know what their Indian peons are doing to their brand?

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CHINA FINANCIAL MARKETS CONFERENCE

8th

November 9, 2009 ~ JW Marriott, Beijing

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Chairman
China Banking Regulatory Commission

*pending final confirmation

KEYNOTE INTERVIEW:



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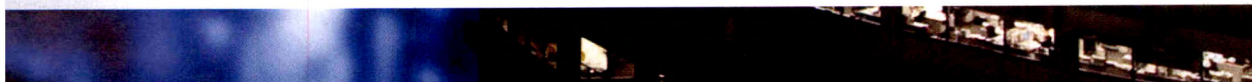
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FAR EASTERN ECONOMIC REVIEW must be exclusive to the REVIEW. We prefer that the submission be between 2,000 and 5,000 words, with a cover letter giving a brief summary of your article along with the author's fax number, day and evening phone numbers, mailing address and email addresses. All articles should be sent by email to hugo.restall@feer.com.

FIVE YEARS AFTER the REVIEW was relaunched as a monthly journal, and 63 years after its founding, we have regretfully decided to close the magazine. Subscribers have already received notices in the mail. Thankfully we still have one more issue left in which to pen a proper valedictory.

In the meantime, however, a few thoughts on the dislocations faced by us and everybody else in the information business. The Economist newspaper's "Banyan" column tackled the REVIEW's closure by focusing on the difficulties faced by Asia's regional publications. The market has fragmented as individual economies have developed to the point that advertisers need to target their campaigns more precisely, and local publications have sprung up to allow them to do so. Readers too are less catholic in their interests than they were just a decade or two ago.

Those challenges were widely discussed when the weekly REVIEW folded. The business model was put under further pressure by competition from global publications that could use content from other editions and thereby enjoy a lower cost base. Since then, however, it has become increasingly clear that the newsweekly format has passed its sell-by date in most developed markets. It is a hallmark of this gloomy age for journalism that no publisher can afford to take heart from the closure of a competitor; in most cases it does not bring an uptick in revenue but rather is a harbinger of more pain to come.

Nevertheless, there are good reasons to be skeptical that the media business is in its death throes, globally or in Asia. The appetite for information continues to grow, but publishers have made several mistakes that meant they failed to capture this demand. By giving away their content without charge on the Internet, media companies have done double damage. First, they have conditioned consumers to see content as a free good, and second, valuable time has been lost in the development of efficient payment mechanisms.

While e-readers will not be a silver bullet, the development of such new platforms for reading will surely play a big part in the renaissance of publishing. This development comes too late for the REVIEW, but it is a natural fit for the niche publication, removing the problems of availability, distribution and production costs.

Eric Halpern founded the REVIEW in Hong Kong after he was forced by World War II to abandon a Shanghai-based magazine. Perhaps the REVIEW may rise once more in a new incarnation, following Halpern's spirit of optimism that "a period of prosperity will certainly follow."

H.R.

LETTERS

A Typhoon of Criticism

I WOULD LIKE to clear up a number of erroneous statements in Julian Baum's September essay "Behind the Dalai Lama's Taiwan Visit." First, Mr. Baum uncritically cites a certain news agency's unsubstantiated claim that our government agreed with Beijing to limit the Dalai Lama's movements when he visited Taiwan to minister to the suffering of disaster victims in the wake of Typhoon Morakot. This is preposterous. The R.O.C. government acts solely as the servant of the citizens of our sovereign nation. At the request of the governments of areas devastated by the typhoon, we swiftly approved the Dalai Lama's visit, and we respected the sponsors' arrangements for his itinerary.

Second, the article promotes the notion that responsibility for the scale of human tragedy associated with Morakot "rests squarely on [President Ma Ying-jeou's] shoulders for failing to mobilize resources by declaring a state of emergency which could have sped up rescue efforts by several days." This flies in the face of reality. It is indicative of the author's lack of knowledge concerning the R.O.C.'s legal framework, actual disaster conditions and our government's actions.

Following the devastating earthquake of Sept. 21, 1999, then-existing laws relating to disaster relief were consolidated and augmented in the form of the current Di-

saster Prevention and Response Act, enacted in 2000. The aim was to establish a comprehensive disaster prevention and response mechanism that would obviate the need for declaring a national emergency, entailing the suspension of laws and great expansion of presidential power. Hence, the president's declaration of a national emergency could legally have been construed as an abuse of power which, by throwing established chains of command into disarray, could have undermined disaster relief work.

Regarding physical conditions, over the period from the night of Aug. 7 through Aug. 9, Morakot dumped over 2,000 millimeters of rain on a huge swath of Taiwan's southern mountainous regions. For several days, delivery of relief personnel and materiel to mountain communities via ground transport was impossible. Moreover, until Aug. 10, heavy rains and wind made helicopter missions too dangerous.

Once the downpour abated on Aug. 10, our armed forces immediately dispatched helicopters to isolated disaster areas in the mountains, delivering supplies, soldiers and medical personnel, and evacuating victims. As of Aug. 14, a total of 1,229 sorties had been carried out, evacuating nearly 6,300 people.

Mr. Baum claims that since the Kuomintang's victory in the 2008 presidential election, civil liberties and democratic rights have been eroding. This is completely unjustified. President Ma has often reiterated his determination to carry out reforms with the aim of more firmly establishing democracy and rule of law.

Su Jun-pin

Minister, Government Information Office
Republic of China (Taiwan)

THE FAR EASTERN ECONOMIC REVIEW welcomes letters to the editor sent via fax to (852) 2503-1530, by email to letters@feer.com or by post to GPO Box 160, Hong Kong. Submissions must include the author's full name, address and daytime contact numbers. The REVIEW reserves the right to edit letters for length and clarity.

The Democrats' Stalled Trade Agenda

Barack Obama made alliances with unions to win the election. Now, those unions demand favors which may save American jobs in the short term but will cost the United States in the long term.

by Greg Rushford



THE WAY AMERICAN presidential politics traditionally work, candidates run either from the right or the left, saying what they think they must say in order to get elected. But once they are safely in the Oval Office and the realities outweighing the campaign rhetoric begin to sink in, United States presidents tend to govern from the center—especially when concerned with America's leadership role in international trade.

At least, that was true until Barack Obama won the 2008 election as the candidate of protectionism. Mr. Obama came into office saddled with a disturbing array of protectionist chits owed to the usual short list of special pleaders in the ranks of organized labor who worked overtime to put him in the White House: most notably textiles, autos, steel and the dairy lobby. Mr. Obama trounced Republican John McCain last November in key battleground states such as Michigan, Ohio, Pennsylvania and North Carolina, places where fears

of global competition run strong. Mr. McCain, a free trader who refused to pander to the anti-trade crowd, paid the price for his integrity.

And now from his perch in the White House, Mr. Obama has begun to pay his political debts to the lobbies that backed him in the campaign. The headlines have appeared all year: Buy American provisions to help the steel lobby get major contracts federal construction projects for highways and airports. Stiff tariffs to curb imports of tires made in China, again for the steelworkers union. Bailouts for the United Autoworkers. More “buy American” stipulations in defense contracts to favor domestic clothing manufacturers.

White House inaction in key areas is even more telling. The Obama administration has failed to jumpstart the WTO's stalled Doha negotiations and seems to be

Mr. Rushford is editor of the Rushford Report, an online journal that tracks trade politics and diplomacy.

biding its time on a free-trade deal called the Trans-Pacific Strategic Economic Partnership, as well as the U.S.-Korea Free Trade Agreement.

Perhaps the strangest part of this story is that Mr. Obama came into office vowing to do anything he could to promote U.S. job creation, only to adopt trade policies that threaten American jobs. But before taking a closer look at some illuminating details of the Obama White House's overall dysfunctional performance on trade in the president's first year in office, a little political history provides some helpful perspective.

Every American president since Franklin D. Roosevelt has generally followed a bipartisan centrist consensus to promote free international trade. True, from Ronald Reagan's "voluntary" trade restraints aimed at Japanese auto imports to George W. Bush's steel tariffs, every president had his occasional lapses. But beginning in the 1980s with the rise of the Japan bashers and "fair traders" (who have now morphed into China bashers) the post-war consensus gradually began to fray, while presidents' political maneuvering room became increasingly limited.

Nevertheless, in his two terms in office in the 1990s, Mr. Obama's nearest Democratic predecessor showed how, despite the political constraints, the game could still be played to America's (and the world's) economic advantage. In 1992, Bill Clinton, trolling for votes from organized labor as he ran for president against Republican incumbent George H. W. Bush, mostly expressed ambivalence regarding international trade. Candidate Clinton's rhetoric was tailored to appeal to the Democratic Party's union supporters who were indignant that the elder Mr. Bush was negotiating deals to expand trade: notably, the North American Free Trade

Agreement with Mexico and Canada, and also multilateral trade talks aimed at establishing the World Trade Organization.

But once he was in the White House, President Clinton soon realized that he could not afford to turn his back on America's traditional international economic responsibilities, despite the political costs. By December, 1993, as his first year in office ended, Mr. Clinton—after a bruising fight with the organized-labor dominated wing of his Democratic Party—had pushed Nafta through the U.S. Congress. In its second year, the Clinton administration successfully concluded the negotiations that established the WTO, again over the vehement objections of his party's protectionists. Later in his presidency, Mr. Clinton (wisely) fought the AFL-CIO and leaders of his party like Rep. Nancy Pelosi (now speaker of the House) to lay the groundwork for both China's and Vietnam's subsequent accession to the WTO.



These were among the brightest accomplishments of the Clinton presidency.

When he was sworn into office on Jan. 20, 2009, it first looked like President Barack Obama—who, like his fellow Democrat Mr. Clinton, had campaigned from the left as a trade skeptic, albeit with far much sharper protectionist rhetoric—intended to govern from the traditional center. In his inaugural address that chilly January afternoon on the steps of the U.S. Capitol, the new president declared that people around the world, “from the grandest capitals to the small village where my father was born” should know that America is “ready to lead once more.” Citing the scripture, the new president vowed that “the time has come to set aside childish things”—which economically literate optimists presumed would include shrill protectionism.

Indeed, Mr. Obama brought highly regarded economist Lawrence Summers—who had pushed the Clinton global trade initiatives first as a White House adviser and then as treasury secretary—back into the White House as his top economics aide. Mr. Obama turned to the politically talented Ron Kirk—a corporate lawyer and former mayor of Dallas, Texas—as his chief trade negotiator, an appointment that was initially not well received by organized labor. And Mr. Obama quickly dropped some of his more extreme campaign rhetoric, in which he had threatened to tear up the Naf-ta trade accord and launch massive economic and diplomatic warfare aimed at bending China’s economic and monetary policies to America’s will.

But now, as his first year in the Oval Office comes to a close, Mr. Obama has not done anything meaningful by way of exercising America’s traditional international trade leadership. Instead of governing from the center, the president has yet to really govern when it comes to trade. It seems that the White House is still in what may be permanent campaign mode.

Mr. Obama has refused to press Congress—where protectionists now rule to a greater extent than anytime since the 1930s Depression era—to pass preferential trade deals that predecessor George W. Bush negotiated with Colombia, Panama and South Korea. Mr. Obama has occasionally given lip service to the importance of concluding the WTO’s ongoing Doha Round of multilateral tariff- and subsidy cutting, but American trade negotiators have not been negotiating seriously all year. Mr. Obama did very little to boost the Doha negotiations when he hosted the G-20 leaders in Pittsburgh in September: another important missed opportunity. U.S. trade negotiator Mr. Kirk will go to the WTO’s ministerial meetings in Geneva on Nov. 30 prepared to talk about sealing a Doha deal, thereby kicking the can down the road to next year. As the U.S. president prepares to swing through Asia this month, including attendance at an important Asia Pacific Economic Forum meeting in Singapore from Nov. 14-15, diplomatic insiders report that Mr. Obama is expected to say nothing important on trade. All this at a time when global trade flows—the vital engine that, at least when it’s working on all cylinders, importantly drives worldwide economic growth—have been shrinking.

Trade isn’t even listed as any sort of a presidential priority on the White House Web site. President Obama has 23 “issues” highlighted, from “civil rights” to “women.” The “economy” is up top, but there is no mention of trade. Beyond the top 23, Mr. Obama lists seven “additional issues” he is concerned about, like “faith,” “child advocacy,” and the “arts.” Even Americans who hunt and fish are worthy of presidential concern. But while the president wants it known that he has a special place in his heart for “sportsmen,” there is no mention of the millions of Americans whose living standards depend upon international trade.

At least U.S. Trade Representative Ron Kirk somewhat mentions the benefits of international trade on the USTR website. According to the Web site, it turns out that those benefits are basically limited to Americans who export their widgets. On the other hand, imports—which supply crucial raw materials to U.S. manufacturers while also benefiting consumers—are of course also of vital importance to the health of the U.S. economy. After all, think of only electronic components that the Silicon Valley needs to import from Japan and Taiwan. But Mr. Kirk says nothing about such things. His Web site, which is meant to educate the American people of how trade benefits them, mentions imports only in passing. He also notes without further comment that America also is an importing nation.

Meanwhile, U.S. trade policy stumbles on. Mr. Kirk flew to Singapore in July, where he attended two days of meetings with trade ministers from the 21 country members of the Asia Pacific Economic Cooperation Forum. In Singapore, and in his more recent meetings with his fellow trade ministers, Mr. Kirk impressed just about everyone with his friendly personality, his grasp of the details of various issues, and his good intentions. But the representative of the world's largest economy brought a weak negotiating hand to Asia. His marching orders from the White House were basically to smile and nod pleasantly. That and play for time when, if it comes, the president is ready to let him negotiate seriously.

While the Obama White House dithers, important trade deals like the one between the U.S. and South Korea languish. It is difficult to see the economic advantage in this for the American side. The Koreans, who are tired of waiting for Washington to act, have been busy working to forge closer preferential trade ties with the European Union instead. And it's

likely to get worse, as the Australians want to do their own deal with the Koreans. This would slash tariffs for Aussie beef, leaving American beef saddled with 40% tariffs. One wonders how many American jobs would have to be threatened before Mr. Obama gets serious about moving the U.S.-Korea trade deal.

In Singapore in July, Mr. Kirk wasn't even able to say that America would negotiate seriously to join the Trans-Pacific Strategic Economic Partnership. The TPP is a preferential trade scheme that was first entered into between New Zealand, Chile, and Singapore. Brunei has since joined in, as have Australia and Peru. Vietnam very much wants to join the club. So did the Americans, before Mr. Obama was elected president. In September 2008, Susan Schwab, then the Bush administration's top trade negotiator, said that the U.S. would be entering into serious negotiations to join the TPP. But Mr. Obama has called that process to a halt. America, which didn't lead in launching the TPP, now isn't even willing to be a good follower.

Special-interest politics are holding Mr. Obama back. The U.S. National Milk Producers Federation is aghast at the thought of competing with a world-class dairy exporter like New Zealand. Mr. Obama looked to the dairy lobby to help him in states like Wisconsin on the 2008 campaign trail. And the U.S. textile lobby, which also supported Mr. Obama in the Carolinas, is frightened at the thought of lowering tariffs with Vietnam. Mr. Kirk has said he likes the idea of the TPP, whose members are amongst the world's true leaders when it comes to lowering trade barriers. But because Mr. Kirk's boss in the White House is so indebted to such classic American protectionist lobbies, the U.S. trade negotiator has little to give beyond empty talk. Even if the Obama administration decides to join the negotiations, the smart money would bet that the White

House strategy would then be to talk and talk and then talk some more.

To get a ground-level view of how strong the protectionist lobbies look from the White House perspective—and perhaps a glimpse into Mr. Obama's fortitude—look at the 35% tariffs on tires imported from China that the president announced on Sept. 12. This one was a political payback for the steel lobby, about as pure and simple as it gets.

The United Steelworkers of America, whose members also include tire workers, sought the trade protection under an unusual statute known as Section 421 of the U.S. Trade Act of 1974. During the Cold War, this law applied to “surges” of legitimately traded imports from “communist” countries that could materially injure a competing American industry (never mind that the law sounds like a description of what healthy market competition is supposed to entail). Pursuant to WTO rules that require the U.S. to treat all of its trading partners equally, the old law would not have applied to China—except that the Chinese were pressed to agree to its continuation as part of obtaining U.S. approval to become a WTO member.

Unlike other U.S. trade laws, Sec. 421 requires the final decision to be made by the president personally. Imagine the president of the world's only superpower, sitting in the Oval Office, thinking deeply about how much more American consumers should pay for the tires they buy. But Mr. Obama duly considered such weighty affairs, and decided two months ago that Americans should pay 35% on imported tires from China. To reach such a conclusion, the president was required to consider the broader American national economic interest, not just the narrower interest of the petitioning steel lobby. This is the part of the story where the politics trump the intent of the law.

If it were not for his political obligations

to the steelworkers, Mr. Obama's choice would have been simple. The steelworkers union estimates that it has lost 5,100 jobs in recent years due to import competition from Chinese tires, which are focused on the lower end of the U.S. market that domestic tire makers now source overseas. Furthermore, the union pointed to some 3,000 more expected job losses by the end of this year, as several more domestic tire manufacturers are expected to exit the less profitable low-end part of the market. The reason that the president's choice would have been simple—if economics and not politics were the driving force—is that those jobs are simply not going to return to the U.S. The most optimistic scenario is that the tariffs might save 1,800 American jobs. The problem is, tens of thousands of other Americans whose jobs depend on the Chinese trade could soon find their jobs threatened, as the market scrambles to look for affordable imports to replace the now-more expensive Chinese tires.

Indeed, the Obama tire tariffs are already failing. The U.S. tire plants that were scheduled to close, are still going to shut down. Tire industry sources are scrambling to find less expensive lower-tier tires from places like Indonesia, India, and Taiwan, to replace the tires from China that are now subject to the high tariffs. Nobody in the U.S. tire industry can be found who believes that the tariffs are going to save more American jobs than will be lost.

And even if it were otherwise, Mr. Obama's tariffs have already put other Americans' jobs at risk, as (predictably) the Chinese have already decided upon the classic tit-for-tat retaliatory measures associated with all trade spats. Beijing has filed an anti-dumping case that targets some \$780 million in imports of American chickens—most notably including the feet; Chinese diners famously crave their so-called chicken “paws” in soups and stews. Already, Chinese anti-dumping officials

have served papers on well-known U.S. poultry exporters like Tysons Foods, Pilgrim's Pride, and Keystone Foods. Keystone Foods, incidentally, is headquartered in Pennsylvania, which is also home of the steelworkers union.

The Chinese are reportedly considering targeting the U.S. automobile industry next. By trying to accommodate the United Steelworkers, the president has risked jobs among his allies the United Autoworkers of America. Such is the tragedy of protectionism: It never works as its supporters hope.

Obama administration officials insist that the president does not want to be known as the most protectionist president since Herbert Hoover. In 1930, Mr. Hoover signed the infamous Smoot-Hawley tariff, which helped turn a global recession into the Great Depression. But while Mr. Obama surely understands the point, on Capitol Hill the protectionist forces are on a tear. Rep. Mike Michaud, a Maine Democrat, a former paper mill worker who is one of the leaders of the House Trade Working Group, has come up with perhaps the "best" idea since Smoot-Hawley. Mr. Michaud has recently managed to line up 124 co-sponsors of legislation called the Trade Reform, Accountability, Development and Employment Act.

And what do these esteemed lawmakers want? Nothing less than for Mr. Obama to renegotiate all U.S. trade agreements, not just regional trade deals like Nafta, but the WTO itself. The president would demand that all 153 WTO member countries would agree to the "fair trade" agenda of U.S. organized labor. U.S. trading partners would have to support more "buy American" laws. They would have to accept sanctions on countries that operate "sweatshops" as defined by the AFL-CIO. They would agree to paying economic sanctions for various human-rights transgressions (again, as defined by Uncle Sam). There would be more economic punish-

ments for countries that have environmental practices that the American unions don't like—and on and on. To make sure the president would do as instructed, the legislation would create a "congressional super committee" that would basically call the shots.

Nuts? Of course. But up on an increasingly insular-looking Capitol Hill, lawmakers imagine that U.S. trading partners would agree to such things. They might consider a little recent history that strongly suggests otherwise. Ten years ago this month, President Bill Clinton—who, despite his embrace of globalization, never succeeded in bridging the gap between the protectionists in his party and so-called New Democrats who favor expanded trade—helped wreck the WTO's ministerial meetings in Seattle when he vaguely implied that someday the U.S. would think of sanctioning trading partners that didn't meet labor standards as defined by the AFL-CIO. Mr. Clinton's suggestion, meant to try to please his party's union base, was softly put. But offended Third World WTO members immediately went ballistic.

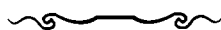
Now nearly one-third of the U.S. Congress would bring in the wrecking ball to wield against the WTO and the world's multilateral trading system. When he goes to Geneva later this month with his assurances that the Obama administration hopes to be ready soon to bring home a Doha deal, Mr. Kirk will likely get his ears burned on precisely how he expects to move a deal through Congress.

Somewhere in the netherworld of protectionists' final resting places, the ghosts of Senator Smoot and Congressman Hawley must be chortling at the task in front of Mr. Obama—when and if he decides that the time has come for him to show genuine international economic leadership. One thing is a certainty: The longer the president waits to lead, the more difficult it will be. ■



Reassurance or Appeasement?

by Willy Lam



BOTH WASHINGTON AND Beijing are playing down the likelihood of concrete achievements emanating out of President Barack Obama's first trip to China this month. Nevertheless, the event has the potential to become a watershed in relations between the world's lone superpower and its fastest-rising great power.

For the first time, the leaders of the United States and the People's Republic of China will be talking as equals. And while much of the media coverage will be about the symbolism and atmospherics of Obama's summit with President Hu Jintao, the bargaining and horsetrading between the two supremos could determine whether the G2 members could amiably—and symbiotically—cooperate in shaping a new world order, or whether the competition between the two powers will escalate over the rest of the century.

Despite his lack of expertise on China, Mr. Obama began his tenure by extending an olive branch in the form of the “doctrine of strategic reassurance” toward the country that has become America's largest cred-

itor. In the words of Deputy Secretary of State James Steinberg, the U.S. and its allies “are prepared to welcome China's ‘arrival’ ... as a prosperous and successful power.” All that Mr. Steinberg asked for in return was “a shared commitment to building an international system based on mutual trust.” “China must reassure the rest of the world that its development and growing global role will not come at the expense of security and well-being of others,” he said.

Mr. Obama thus seemed ready from day one to give the P.R.C. ample benefit of the doubt. This approach is different from the initial phases of the tenures of Presidents Bill Clinton and George W. Bush, which were marked by muscle flexing and, in the case of the “spy plane incident” in early 2001, ugly confrontation. The Obama team has already made a number of concessions in the expectation that the Chinese Communist Party would reciprocate by becoming more of what former deputy secretary

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of state Robert Zoellick called a “responsible stakeholder” in the global community.

An assessment of the U.S. president’s maiden tour of the Middle Kingdom should begin by examining to what extent the Chinese have reciprocated Washington’s goodwill gestures. First, the Obama administration seems to have mothballed two related strategies that Washington has employed since the 1950s: “peaceful evolution” and the “human rights card.” This refers to efforts to promote Communist China’s gradual transformation into a democratic, capitalist country through playing up—and impressing upon younger generations of Chinese—global values such as democracy and civil liberties.

However, Secretary of State Hillary Clinton steered clear of human rights during her China sojourn early this year. Washington kept mum regarding Beijing’s escalation of slash-and-burn tactics in Xinjiang after a series of bloody skirmishes between the majority Han Chinese and Uighurs, whose culture and ethnic identity are being systematically marginalized. Last month, Mr. Obama caught flak from both the American left and right—as well as human rights activists in China—by refusing to see the Dalai Lama during the Nobel laureate’s visit to the American capital.

There are signs that in pursuit of the “strategic reassurance” doctrine, Mr. Obama may be amenable to shelving an even more powerful lever that Washington has used against the P.R.C.: the threat of containment. This is a codeword for efforts by the U.S., in conjunction with allies and semi-allies such as Japan, South Korea, Taiwan, the Philippines and Australia, to “encircle” China by maintaining a web of alliances in the Asia-Pacific.

As Taiwan President Ma Ying-jeou complained recently, Washington has continued to stall on Taipei’s requests for F-16 jetfighters, despite the transformational

growth of the People’s Liberation Army’s capacity in the past decade. A major objective of the just-completed American tour of the vice chairman of the CCP Central Military Commission, General Xu Caihou, was Washington’s total cessation of arms sales to Taiwan. While Secretary of Defense Robert Gates, Gen. Xu’s host, didn’t say anything on this issue, Washington has been less than vociferous in demanding that the PLA remove the 1,000-odd missiles that it has deployed in bases just opposite Taiwan.

Given that the Chinese hold some \$800 billion worth of U.S. government bonds, in addition to another \$550 billion or so of American securities, it is not surprising that Washington has been making nice with Beijing in the finance and trade arenas. The Treasury Department last month chose not to name China as a country that manipulates its currency, despite the fact that the yuan has returned to a de facto peg to the dollar in the past year. The Obama administration did slap punitive tariffs on Chinese tires in September, but given the small volume of such imports this was more a symbolic gesture to placate the Democratic Party’s labor constituency.

Moreover, at the recent trade talks in the coastal city of Hangzhou, U.S. Secretary of Commerce Gary Locke and his Chinese counterpart Chen Deming agreed on a theoretical moratorium on protectionist policies. On the eve of the Obama visit, Beijing was abuzz with speculation that Washington would liberalize procedures for Chinese purchases of American high technology, and that the U.S. might even accord China “full market economy status.”

In return for its olive branches, the Obama administration hopes Beijing will do more in these areas: reining in the nuclear ambitions of North Korea and Iran; making firmer commitments to cut fossil-fuel gas emissions; continuing to buy American bonds; boosting imports of American

goods and services; and improving the transparency of its defense forces. So far, Beijing has done little on these fronts, a tendency that is unlikely to be changed by the upcoming Obama-Hu tête-à-tête. A key reason is that President Hu and his advisers consider Mr. Obama's favors as things the U.S. should have done all along—and not “concessions” for which the CCP authorities need to reciprocate.

This was made clear in a late October commentary—“Strategic Reassurance, Yes Please”—in the *Global Times*, a state-owned newspaper. Referring to Mr. Steinberg's suggestion that Beijing should reassure the U.S. about defense issues such as military transparency, the party mouthpiece asserted that Mr. Steinberg had taken the words “strategic reassurance” “out of our [Beijing's] mouth”—and that the onus was on Washington to satisfy China's demands in fields such as arms sales to Taiwan.

Beijing has refused to use its leverage with North Korea and Iran to oblige them to wind down programs of weapons of mass destruction. Premier Wen Jiabao's trip to Pyongyang in early October—during which Beijing augmented food and fuel aid to the D.P.R.K.—was a violation of the spirit if not the letter of sanctions that the U.N. Security Council had imposed in early summer. While meeting a D.P.R.K. military delegation recently, Mr. Hu reaffirmed Beijing's commitment to “raising the Sino-North Korean relationship of friendly cooperation to new levels.”

So far Beijing has been unable to persuade Dear Leader Kim Jong Il to return to the Six-Party Talks on denuclearization. Instead, the Hu-Wen leadership seems much more interested in exploiting North Korea's mineral resources—estimated value \$3.7 trillion—and playing the “North Korean card” vis-à-vis the U.S. and Japan. The same is true of Beijing's game plan regarding Iran, where China has invested tens of

billions of dollars in oilfields.

On the climate change front, the CCP has, as much for its own self interest as fulfilling international obligations, committed massive resources to exploiting non-fossil fuel energy sources. So many factories have started producing wind-power turbines that the central government issued an order last month to cool down this overheated sector. However, as Sinologist Susan Shirk has pointed out, Beijing is unlikely to announce clear-cut emission targets during the Obama visit. “As a matter of national pride, the Chinese refuse to articulate an international commitment under duress,” she said.

Concerning finance and trade, Beijing has apparently kept its side of the bargain by holding on to its hoard of Treasury Bills. Yet the CCP has simultaneously been undermining the status of the greenback as a global reserve currency. Chinese bankers and diplomats have concluded a series of accords with developing countries including Brazil and Russia to settle their trade in currencies other than the American dollar since early 2009. There is speculation that Beijing is lobbying Middle East countries to stopping pricing oil in U.S. dollars.

Beijing is not planning to do much in return for Mr. Obama's myriad concessions. Even worse is the probability that the Hu leadership has interpreted Washington's friendly overtures as a sign of weakness. This has prompted Beijing to take more measures to bolster its international standing at the expense of America.

Beijing's enhanced wooing of the Association of Southeast Asian Nations, one of whose purposes is to keep the U.S. out of China's perceived sphere of influence. At the Asean summit last month, Beijing played “dollar diplomacy” by offering Southeast Asian countries a credit line of \$15 billion for industrial and infrastructure

projects. Premier Wen also secured a consensus pledge that the “Asean plus three” structure—Southeast Asia plus China, Japan and South Korea—would become the “main vehicle toward the long-term goal of building an East Asian Community.” Not only the U.S. but such American allies as Australia and India have been excluded from what could be a prototype for an EU-style Asian bloc.

In the event that Mr. Obama fails to bring any substantial agreements back from Beijing, it is likely that the two giants will switch to a more complex relationship marked by both cooperation and contention. Indeed, the Obama visit could spell the end to the honeymoon in bilateral ties made possible by the “strategic reassurance” mantra. Naïve as the Obama foreign-policy team may seem to its critics, it will soon stop unilaterally dispensing goodies.

While still dependent on Chinese capital to fund America’s deficits, Washington has been buoyed by the 3.5% GDP surge in the third quarter. To ensure the longevity of the American recovery, the Obama administration has little choice but to press the Chinese to narrow their still-gaping trade surplus by buying more U.S. products—and by speeding up the full convertibility of the yuan.

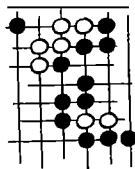
Over the long haul, the two titans will remain what former Secretary of State Condoleezza Rice presciently characterized in 2000 as “strategic competitors.” Mr. Obama as a presidential candidate said as much when he said China is “neither our enemy nor our friend. They are competitors.” First, the U.S. will more zealously guard the basis of its claim to superpower status: high-tech superiority in the business and military fields. Tougher scrutiny will be placed on efforts by Chinese sovereign funds and state-controlled firms to purchase American companies with sophisticated know-how. U.S. law-enforcement officials will

more zealously combat the industrial-espionage network that the P.R.C. set up in the late 1990s.

The contest between the U.S. and China will intensify over geopolitics, particularly winning hearts and minds in regions including Asia, Africa and Latin America. Secretary Clinton fired the first salvo when she took part in the Asean Regional Forum in July. After signing the long-delayed Treaty of Amity and Cooperation with the bloc, Clinton delivered Washington’s message: “The U.S. is back.” At a time when China is pulling out the stops to buttress its influence in world bodies ranging from the United Nations to the International Monetary Fund, the battle to win over Africa, which boasts more than 50 U.N. votes, will heat up.

Most critically, Sino-American competition will play out over whether Washington still has what it takes to reclaim the moral high ground in the community of nations. The devastating depletion of American soft power in the wake of the global financial crisis—when much of the world has been forced to suffer the consequences of the unchecked greed of American investment bankers—has given China an opening that it is frenetically exploiting.

Mr. Obama will soon realize how little China’s mandarins appreciate such giveaways as snubbing the Dalai Lama and saying nothing about the drastic deterioration of human rights in China. That will set up his administration for a return to the touchstone that America has no more potent weapon than its track record of safeguarding universal values such as democracy and civil liberties. Only a U.S. that has rediscovered its resolve for upholding freedom and human rights world-wide will be able to fend off the challenge of nouveau riche CCP cadres—and show the legions of China’s underprivileged and downtrodden that the clash of civilizations will be won by the forces of liberalism. ■



Three's a Crowd in the India-China Theater

by Brahma Chellaney



THE RENEWED SINO-INDIAN border tensions arising from growing Chinese assertiveness raise an oft-asked question: What has prompted Beijing to up the ante against New Delhi? Until mid-2005, China was eschewing anti-India rhetoric and pursuing a policy of active engagement with India, even as it continued to expand its strategic space in southern Asia, to India's detriment. In fact, when Premier Wen Jiabao visited New Delhi in April 2005, the two countries unveiled an important agreement identifying six broad principles to govern a settlement of the long-festering Himalayan frontier dispute that predates their 32-day bloody war in 1962.

But by late 2005, the mood in Beijing had noticeably changed. That, in turn, gave rise to a nationalistic streak: Chinese newspapers, individual bloggers, security think-tanks and officially-blessed websites ratcheting up an "India threat" scenario. By early 2006, some Chinese strategic journals and pro-Beijing Hong Kong newspapers like Ming Pao had begun publishing commentaries about a

"partial border war" to "teach India" a 1962-style lesson. And in the fall of 2006, Beijing publicly raked up an issue that had remained dormant since the 1962 war—Arunachal Pradesh, India's remote north-eastern state that China claims largely as its own on the basis of putative historical ties with Tibet. In fact, the Chinese practice of describing Arunachal, with 1.3 million residents, as "southern Tibet" started only in 2006.

The following year, Beijing repudiated the most important principle it had agreed to during Mr. Wen's 2005 visit—"in reaching a boundary settlement, the two sides shall safeguard due interests of their settled populations in the border areas." Since then, China has stepped up military pressure along the Himalayas through cross-frontier incursions and border provocations. New Delhi has been compelled to urgently enhance Indian defenses, including the de-

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ployment of new forces and a crash program to improve logistics.

Ominously, commentaries in the official Chinese media now echo the coarse anti-India rhetoric of the Mao era. The People's Daily, the Chinese Communist Party's official newspaper, berated India in an Oct. 14, 2009 editorial for its "recklessness and arrogance" and for seeking "hegemony." Even Chinese government statements on India have taken a harsher, more strident tone; the foreign ministry has begun using language such as "we demand" and labeling the Indian prime minister's recent Arunachal visit a "disturbance."

What happened in the months after Mr. Wen's visit to prompt such a change of heart? The only major development in that period was the new U.S.-India strategic tie-up, as defined by the defense-framework accord and nuclear deal, but a U.S.-India military alliance has always been a strategic nightmare for the Chinese. Thus, the ballyhooed global strategic partnership triggered alarm bells in Beijing. Today, the relationship between the two Asian powers has deteriorated to the extent that trading verbal blows has become common.

Did Delhi help create the context, however inadvertently, for the new Chinese aggressiveness? In June 2005, India agreed to participate in U.S.-led "multinational operations," to share intelligence and to build military-to-military interoperability, all key elements of the June 2005 defense-framework accord. Delhi also pledged to become Washington's partner on a new "Global Democracy Initiative," a commitment found in the July 2005 nuclear agreement-in-principle. While Beijing cannot hold a veto over India's diplomatic or strategic initiatives, Delhi could have avoided creating an impression that it was being primed as a new junior partner in America's hub-and-spoke global alliance system.

India—with its hallowed traditions of policy independence—is an unlikely can-

didate to be a U.S. ally in a patron-client framework. The strategic partnership with the America falls short of a formal military alliance. But the high-pitched rhetoric that accompanied the new partnership represented a tectonic shift in geopolitical alignments, and apparently Chinese policy makers began to believe that India was being groomed as a new Australia to America. This perception was reinforced by subsequent security arrangements, defense transactions and an end-use monitoring agreement. New Delhi failed to foresee that its rush to forge close strategic bonds with Washington could provoke greater Chinese pressure and that the U.S. would be able to offer little comfort to India in such a situation.

First, Beijing calculatingly has sought to badger India on three fronts—border (according to the Indian government, Chinese cross-frontier incursions nearly doubled between 2007 and 2008, with "no significant increase" in 2009); diplomatic (issuing visas on a separate sheet to residents of the Indian-administered state of Jammu and Kashmir so as to set apart that region from India); and multilateral (launching an international offensive to undercut Indian sovereignty over Arunachal; for example, by successfully blocking the Asian Development Bank from identifying that region as part of India in its latest \$1.3 billion credit package). As the resistance to its rule in Tibet has grown since last year, Beijing has sought to present Tibet as a core issue to its sovereignty, just like Taiwan. Tibet now holds as much importance in Chinese policy as Taiwan. In ratcheting up the Arunachal issue with India, Beijing seems to be drawing another analogy: Arunachal is the new Taiwan that must be "reunified" with the Chinese state.

The Dalai Lama has said that Arunachal was never part of Tibet, using this to explain why Arunachal was not included in Tibet in a 1914 agreement that demarcated

the borders between the then-independent Tibet and British-ruled India. Beijing does not recognize that agreement because China's acceptance of the 1914 border would be admission that Tibet was once independent, which would seriously undercut the legitimacy of its control over the increasingly restive region.

Beijing originally fashioned its claim to Arunachal, a territory almost three times larger than Taiwan, as a bargaining chip to compel India to recognize the Chinese occupation of the Aksai Chin, a Switzerland-size plateau once part of the state of Jammu and Kashmir. Thus, China withdrew from the Arunachal areas it invaded in the 1962 war but retained its territorial gains in Aksai Chin, which provides the only passageway between its rebellious regions—Tibet and Xinjiang. The late Chinese leader Deng Xiaoping put forth a package proposal: New Delhi accept the Chinese control over Aksai Chin and Beijing drop its claim on Arunachal, subject to “minor readjustments” in the line of control.

But as part of its hardening stance toward India, China has dredged up its long-dormant claim to Arunachal. It openly covets Arunachal as a cultural extension to Tibet—a classic attempt at incremental annexation. Because the sixth Dalai Lama was born in the 17th century in Arunachal's Tawang district, Beijing claims that Arunachal belongs to Tibet and thus is part of China. By the same argument, it can also lay claim to Mongolia, as the fourth Dalai Lama was born there in 1589. The traditional ecclesiastical links between Mongolia and Tibet indeed have been closer than those between Arunachal and Tibet.

What makes China's claim even more untenable is that it has hived off the birthplaces of the seventh, 10th, 11th and the

present 14th Dalai Lamas from Tibet. Before seeking Arunachal, shouldn't Beijing first return the traditional Tibetan areas of Amdo and eastern Kham to Tibet?

Second, even though the Indo-U.S. strategic tie-up has served as the key instigator of China's more muscular stance toward India, Washington is more reluctant than ever to take New Delhi's side in any of its disputes with Beijing. President Barack Obama's administration—far from supporting New Delhi—has shied away from even cautioning Beijing against any attempt to forcibly change the territorial status quo. Indeed, on a

host of issues, from the Dalai Lama to Arunachal, Washington has chosen not to antagonize Beijing.

In effect that has left New Delhi on its own at a time when some in China seem to

believe that a swift, 1962-style victory in a border war with India is attainable to help cut a potential peer rival to size and fashion a Sino-centric Asia. Accusing India of “walking along the old road of resisting China,” an article on the Web site of the China Institute of International Strategic Studies—a think tank run by the PLA General Staff Department's 2nd Department—warned India “not to requite kindness with ingratitude” and not to “misjudge the situation as it did in 1962.” As a result of the bellicose rhetoric on India, 90% of respondents in a June 2009 online poll by Global Times—published by the Communist Party's information department—cited India as the No. 1 threat to China's security.

India's current predicament is a far cry from what former U.S. President George W. Bush had touted in his valedictory speech as one of his signal achievements: “We opened a new historic and strategic partnership with India.” The Obama ad-

The Obama administration doesn't see India as able to make an important difference to American interests.

ministration isn't unfriendly to India. It just doesn't see India as able to make an important difference to U.S. geopolitical interests. Another factor is that America's Asia policy is no longer guided by an overarching geopolitical framework.

Whether one agreed with the Bush foreign policy or not, at least its Asia component bore a distinct strategic imprint. By contrast, the best that can be said about Obama's Asia policy is that it seeks to nurture key bilateral relationships—with China at the core of Washington's present courtship—and establish, where possible, trilateral relationships. The upshot is that the Obama team has unveiled a new trilateral security-cooperation framework in Asia involving the U.S., China and Japan.

In deference to Chinese sensitivities, however, the Obama administration has so far failed to even acknowledge another trilateral alliance that started under President Bush, involving the U.S., India and Japan. It is as if this concept has fallen out of favor with Washington, just as the broader U.S.-India-Japan-Australia "Quadrilateral Initiative"—founded on the concept of democratic peace—ran aground after the late-2007 election of the Mandarin-speaking Kevin Rudd as the Australian prime minister.

At a time when Asia is in transition, with the specter of power disequilibrium looming large, it has become imperative to invest in institutionalized cooperation and regional integration in order to help underpin long-term power stability. After all, not only is Asia becoming the pivot of global geopolitical change, but Asian challenges are also playing into international strategic challenges. But the Obama administration seems fixated on the very country whose rapidly accumulating power and muscle-flexing threaten Asian stability. The new catchphrase coined by Deputy Secretary of State James Steinberg in relation to China, "strategic reassurance," signals an Ameri-

can intent to be more accommodative of China's ambitions.

China's primacy in the Obama foreign policy has become unmistakable. Indeed, Obama's Asia tour is beginning in Japan and ending in China but skipping India entirely. But playing to India's well-known weakness for flattery, Obama is massaging its ego by honoring it with his presidency's first state dinner. In fact, such a ritzy event fits well with Washington's current focus on promoting business interests in India, including big-ticket export items like nuclear reactors and conventional weapons.

Obama is committed to a strategic partnership with India, including developing close military ties. New Delhi has placed arms-purchase orders, according to the Indian ambassador to the U.S., worth a staggering \$3.5 billion just last year. But he also has signaled that such a relationship with India will not be at the expense of Washington's fast-growing ties with Beijing. America needs Chinese capital inflows as much as China needs U.S. consumers—an economic interdependence of such importance it has been compared to mutually assured destruction. Even politically, China, with its permanent seat in the United Nations Security Council and other leverage, counts for more in U.S. policy than India or Japan. As the U.S.-China relationship acquires a wider and deeper base in the coming future, the strains in some of America's existing military or strategic tie-ups in Asia are likely to become pronounced.

Against this background, it is no surprise that Washington now intends to abjure elements of its ties with New Delhi that could rile China, including a joint military drill of any type in Arunachal or a 2007-style naval exercise involving the U.S., India, Australia, Japan and Singapore. Even trilateral U.S. naval maneuvers with India and Japan now are out so as not to raise China's hackles. In fact, Washington is quietly charting a course of tacit neutrality on

the Arunachal dispute, just as its ally Australia has done rather publicly.

Despite the Obama administration bending over backward to ease its concerns, Beijing remains suspicious of the likely trajectory of U.S.-India strategic ties, including pre-1962-style CIA meddling in Tibet. This distrust found expression in a recent People's Daily editorial that accused New Delhi of pursuing a foreign policy of "befriending the far and attacking the near." But the mocking newspaper commentaries on India's power ambitions indicate that Beijing is also angered by what it sees as its neighbor's audacity in competing with it.

Left to fend for itself, New Delhi has decided to steer clear of any potential confrontation with Beijing. But while seeking to publicly tamp down military tensions with China, the Indian government—under attack at home for being "soft" on China—has begun asserting itself at the political level. While Obama declined to meet the Dalai Lama during his recent Washington visit, India is allowing the Tibetan leader to go ahead with his scheduled Arunachal tour—a red rag to the Chinese bull. It also has announced an end to the practice of Chinese companies bringing thousands of workers from China to work on projects in India. And in a public riposte to Beijing's raising of objections to multilateral funding of any project in Arunachal, India has asked China to cease its infrastructure and military projects in another disputed region—Pakistan-held Kashmir.

Diplomatically, however, India cannot afford to be out on a limb. The vaunted Indo-U.S. partnership has turned into an opportunity for Washington to win multi-billion-dollar Indian contracts and co-opt India into strategic arrangements, without a concomitant obligation to be on India's side or to extend political help on regional and international matters. Joint military exercises, for example, have become a basis to make India buy increasing quantities

of U.S. arms so as to build compatibility and interoperability between the two militaries. Even counterterrorism is emerging as a major area of defense sales to India.

With Obama pursuing a Beijing-oriented Asia policy, and with China-friendly heads of government ensconced in Australia, Japan and Taiwan, New Delhi's diplomatic calculations have gone awry. Yet the present muscular Chinese approach paradoxically reinforces the very line of Indian thinking that has engendered Chinese belligerence—that India has little option other than to align with the U.S. Such thinking blithely ignores the limitations of the Indo-U.S. partnership arising from American policy's vicissitudes and compulsions. Washington is showing through its growing strategic cooperation with China and Pakistan that it does not believe in exclusive strategic partnership in any region.

As was the case before the 1962 war, the China-India-U.S. triangle today is at the center of the Himalayan tensions. The Obama team, however, has yet to propose establishing a trilateral initiative to help contain growing Sino-Indian friction. Having declared that America's "most important bilateral relationship in the world" is with China, the Obama team must caution Beijing against crossing well-defined red lines or going against the self-touted gospel of its "peaceful rise." The U.S. message should be that any military adventure—far from helping fashion a Sino-centric Asia—would prove very costly and counterproductively trigger the rise of a militaristic, anti-China India.

New Delhi, for its part, has to adroitly manage its relationships with Beijing and Washington in a way that it does not lose out. A stable equation with China is more likely to be realized if India avoids a trans-Himalayan military imbalance, as well as security dependency on the third party that has emerged as the elephant in the India-China theater. ■



Turning a Blind Eye To Human Rights

by Colum Murphy

BARACK OBAMA'S FIRST trip to Asia as president of the United States will come under especially close scrutiny this month from a constituency not often represented at the summit table. The region's political prisoners and oppressed minorities are looking for a sign that Washington has not forgotten them. It could be a forlorn hope.

Some politicians and activists are disappointed with the Obama administration's weak stance on human rights and democracy in the region. They question whether it grasps the important role which Asia—in particular Southeast Asia—could play in safeguarding U.S. interests.

Anwar Ibrahim, Malaysia's former prime minister and current leader of the opposition, is one figure urging more action from the White House. "Using a 'soft-soft approach' through diplomatic channels is all very fine," he says. "But a clear position is required."

Without such a position, Mr. Anwar argues, regimes in Asia will not change their ways. "Washington's stance on human-rights issues carries tremendous weight,"

he says. "When America states a clear position in support of human rights, freedom and the rule of law, the world listens, and this makes unscrupulous leaders and autocrats think twice before clamping down on the opposition."

Sophie Richardson, advocacy director of Human Rights Watch's Asia division, calls the Obama administration's approach to human rights and democracy thus far "principled on paper, but scatter-shot or erratic in reality." As the administration reaches its one-year mark, it has failed to put forth any clear stance, she says.

Indeed, there are plenty of reasons for uncertainty, from the president's refusal to meet with the Dalai Lama during the Tibetan spiritual leader's October visit to Washington, D.C., to Secretary of State Hillary Clinton's February pronouncement in Beijing that human-rights issues can not get in the way of dealing with the economic crisis, to the administration's much debated decision to engage with Burma's military junta.

~ *Mr. Murphy is deputy editor of the REVIEW.*

Michael Fullilove, director of the global issues program at the Lowy Institute in Sydney, says one of the signal themes of Washington's foreign policy so far has been pragmatism. "Unlike his predecessor, Mr. Obama does not dwell on the roles that good and evil play in the affairs of humankind," Mr. Fullilove says. He adds that the administration has downplayed freedom in favor of development, citing Mr. Obama's silence on the Iranian pro-democracy uprisings earlier this year.

Evidence of pragmatism can also be seen in Washington's dealings with the Burmese military junta, one of Asia's most oppressive regimes. In late September, Kurt Campbell, assistant secretary of the U.S. State Department's Bureau of East Asian and Pacific Affairs, explained the administration's position on Burma in a press briefing: "For the first time in memory, the Burmese leadership has shown an interest in engaging with the United States, and we intend to explore that interest," he said.

"We support a unified, peaceful, prosperous, and democratic Burma that respects the human rights of its citizens," he added and said the U.S. would continue to advocate the release of Aung San Suu Kyi and all political prisoners.

Mr. Anwar, however, remains unconvinced by this approach. "Does that mean you continue with the old game of impunity?" he asks. "Those who have suffered under the cruelty and excesses of this regime clearly feel very hurt."

He understands too well the importance of having strong support from Washington for dissenters in Asia. In 1999, he was convicted of corruption and sentenced to six years in prison. In 2000, he was charged with sodomy and given nine more years in detention. That latter conviction

was overturned by Malaysia's Federal Court in 2004 and Mr. Anwar freed. During his incarceration, calls from Washington for Malaysia to safeguard the independent judicial process offered encouragement. But his legal troubles have not ended. Fresh charges of sodomy were filed in 2008, and legal proceedings are ongoing. Mr. Anwar has denied having sex with a male aide and alleges that the charges against him are politically motivated—claims which the government denies.



Anwar Ibrahim

Mr. Anwar urges the Obama administration to engage with opposition movements in Southeast Asia, but such a request from him should be of no surprise. After all, he has spent the best part of the past two years as head of the Malaysian opposition, struggling to win over enough members of parliament to give his three-party coalition a majority. It has been a daunting task which to date has not yielded the desired results partly because of alleged dirty tricks—including the most recent round of sodomy charges against Mr. Anwar as well as obstructionist tactics of the ruling party.

He says Malaysia could also benefit from an international community that keeps an eye on potentially wayward governments. "If Malaysia is going to succeed, it is going to need immense help in the promotion of democracy," he says.

"We don't expect the United States to declare war on Malaysia, but it should at least take a stand," he says. The U.S. needs to take a consistent position on issues such as independent judiciaries, freedom of the press, the right to form opposition groups and detention without trial.

Further American engagement with Malaysia's larger neighbor, Indonesia, is also vital to ease the growing threat from militant Islam. Mr. Anwar is encouraged

by the angry outburst from most Indonesians to the Jakarta bombings in August this year at the JW Marriott and Ritz Carlton Hotels. The bombings killed seven people, as well as two suicide bombers. "It was remarkable—I [would] have never seen this type of reaction in the Middle East," he says. "Indonesia must be supported and seconded to engage other parts of the world." This means engaging with the Islamists—or at least "those that have a broader, moderate view." After all, "they have the support of the masses," he reminds us.

REVIEW contributor and author of *My Friend the Fanatic: Travels with an Indonesian Islamist* Sadanand

Dhume agrees—in part at least. "Engagement with Islamists in order to nudge them toward a modern conception of women's rights, minority rights, freedom of expression and equality before the law is welcome," he says. "Engagement that cedes ground on these issues—that sacrifices core democratic principles in the mistaken belief that this will blunt Islamist anger—helps nobody, least of all ordinary citizens of Muslim-majority countries such as Malaysia and Indonesia."

Human Rights Watch's Ms. Richardson is also concerned that the Obama administration, in its drive to find the support of a friendly Muslim nation, could end up ignoring human-rights abuses in Indonesia. She concedes that under President Susilo Bambang Yudhoyono, Indonesia has experienced fewer human-rights violations than in the past. She is, however, concerned about the administration's continued support of Jakarta's military. This sets a "dangerous precedent" since there are elements of the army with a "shocking track record

and for whom impunity continues to be the norm," she says.

Mr. Anwar believes the Americans should learn from the Australians, who have been investing in institution building for years. "The Australians are saying, 'Yes we support you, but we want to help by setting up a strong anticorruption commission, a strong judiciary [system] and [support] some strong media groups,'" says Mr. Anwar.

Malaysia needs the international community's support if it is to become a thriving democracy.

The Lowy Institute's Mr. Fullilove remains hopeful that human rights will move up on the U.S. foreign-policy agenda. "Over time human rights will play an important role in Mr. Obama's diplomacy,"

he says. "His administration is staffed by Democrats and animated by Democratic values; it will be influenced not only by foreign-policy professionals but by Congress, labor unions, activists and the grass roots [organizations]." He adds that U.S. foreign policy has always had a place for human rights on its agenda; no president can ignore the issue.

For Mr. Anwar and thousands of other "voices of dissent," this reaffirmation by America of its pro-human-rights stance cannot come soon enough. "The region has high hopes for an Obama administration to think outside of the box and provide leadership in the area of economic development, poverty eradication and human rights," he says. "People view him as one of us, and expect a level of empathy unprecedented from an American president."

"We don't expect change overnight, but this visit provides an opportunity to set an agenda that is bold and comprehensive and does not bend to the will of antiquated notions of Asian values," he adds. ■



The Myth of Chinese Savings

by Jonathan Anderson

IF THERE'S ONE thing that absolutely everybody in the global community seems to know, it's that China's economy has been seriously imbalanced for the past five years—and that fixing the problem means fixing the Chinese consumer. Mainland households are no longer counted among the world's poorest but they still generate annual income of less than \$4,000 per head, less than one-tenth of what their counterparts in the United States enjoy. The incongruous vision of low-income Chinese families scrimping and saving in order to subsidize the insatiable American consumer has become so firmly engrained in the collective consciousness that it is no longer taken as a point of debate, but rather as a fundamental truth.

As a result, much of the "A-list" of the global economics and policy industry, from the U.S. Treasury to the IMF, the OECD, McKinsey, Goldman Sachs and any number of venerable think tanks, has been generating long lists of recommendations aimed at beating down China's excessive household savings. These mostly involve

improvements in the domestic social safety net, consumer finance and agricultural reforms. Global financial investors also have been busily positioning themselves for an inevitable take-off in Chinese consumption, cheered on by broker reports of latent potential waiting to be unleashed as the mainland "turns the corner" from a savings-oriented to a consumer-driven economy.

Amid all the hype, however, it's easy to lose sight of one simple point: The lion's share of China's extraordinary savings explosion since 2003 didn't really come from Chinese savings at all. If anything, it would be more accurate to say that China "stole" these savings from the rest of the world, and the true rebalancing of the mainland economy will come as China gives those savings back. As we will see, this has rather different implications for the path of economic growth and related policy prescriptions going forward.

Mr. Anderson is the global emerging-markets economist at UBS. While the tone and conclusions are his, as are any errors, this article is based on the analytical work of UBS Chief China Economist Tao Wang.

When the Weirdness Began

CHINA HAS ALWAYS had a dynamic economy at home, but until recently it was a mild-mannered and yawningly predictable player abroad. Between 1982 and 2002, the mainland surplus on the current account (the net balance of merchandise goods and services trade vis-à-vis the rest of the world) fluctuated around a level of 1% to 1.5% of GDP per year. In other words, China was running surpluses—but barely so, and certainly not to an extent that would capture the attention of the global community.

And then, beginning in 2003, something changed. China's external surplus jumped to 2.8% of GDP and then to 3.6% in the following year; by 2005 it had reached 7.2%, and at the peak in 2007 the surplus was an eye-popping 11% of GDP, a virtually unprecedented level for an economy of China's size. The earnings generated from these surpluses sent China's official foreign-exchange reserve assets soaring to more than \$2.5 trillion (including funds transferred to the recently created sovereign wealth fund) as of this writing from a humble \$150 billion at the beginning of the decade.

Where did the money go? Some two-thirds of it was channeled directly into the U.S. economy, and particularly into Treasury and quasi-official bonds—making China the single largest foreign creditor to the U.S. government. This, in turn, allowed American households to borrow and spend unflaggingly for a full half-decade without having to worry about the impact of sharply rising external deficits on dollar interest rates. If you will, China effectively financed the U.S. consumption and housing boom and eventually the subprime finance bubble.

And where did the money come from? The current-account balance is equal by definition to gross domestic savings less

gross domestic investment. So if households and firms are spending more than the available pool of savings, the economy will run necessarily run a trade deficit; if savings are higher than local demand for investment, the economy will run a surplus.

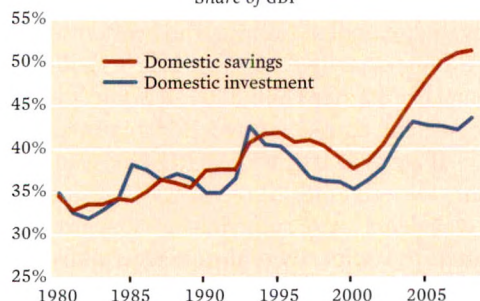
If we look at other cases in postwar history where emerging countries suddenly recorded a large spike in the external balance, the culprit was almost always investment, roughly in line with the following scenario. You had a crisis, long investment demand plummeted, import spending fell alongside and the trade surplus rose sharply as a result. This is a “normal” part of the emerging business cycle—and this story has played itself out again over the past 12 months in countries such as Turkey, Vietnam, Ukraine and the Baltic states.

China's case, however, is anything but normal. As it turns out, the rising surplus had nothing to do with falling investment; in fact, investment demand *rose* significantly over the last five years. Instead, the culprit has been savings. Just look at the picture in the chart below; China has always had one of the world's highest domestic saving rates, averaging around 40% of GDP over the course of the 1990s—and since 2003 that rate has exploded upward to reach nearly 52%, a level that very few countries in the world have ever even come close to.

The mathematical counterpart to this is a consumption ratio that fell off the other way. Total consumption was about 60% of the Chinese economy during the previous decade, but as of last year the figure had fallen to 49%; for household consumption the numbers were 46% and 35%, respectively. Again, these are extraordinarily low numbers by international standards, making China a very imbalanced economy indeed.

And this is where the trouble starts. For most observers looking at these ratios—including many of the best profes-

THE GREAT SAVINGS LEAP
Share of GDP



SOURCE: UBS

sional economists—the underlying explanation is simplicity itself: For whatever reason, over the past five years Chinese consumers “dropped the ball” and began spending less and less, and saving more and more. To some the driving force was a severely undervalued exchange rate that eroded overseas purchasing power, for others it was an erosion of social safety protections and rising uncertainty about the future. But in any case the result was both a drop in import spending and a flood of new household savings that flowed into overseas assets.

False Start

IF THIS IS the case, then the only way to solve the problem is to get China’s consumers spending again. Currently favored policy prescriptions include the introduction of rural pension insurance, an overhaul of the aging health-care system, greater support for public education, better consumer finance incentives and agricultural land tenure reforms. Indeed, the mantra of “making China a consumption economy” is repeated whenever and wherever global imbalances are discussed.

Now, those living in China’s cities can be forgiven for scratching their heads just a little bit at the above arguments. Living standards are still rudimentary by developed benchmarks, to be sure, but nearly

every available consumption indicator, from sales to surveys, showed frenetic growth over that same five-year period, with a rapid increase in spending on travel, restaurants and consumer goods.

Nor was the rural economy stagnating; in fact, this was the first time in more than a decade that farmers finally saw a “double punch” of rising food prices from agricultural activity and higher wages for rural migrants in the low-end factory and construction sectors, both of which significantly boosted incomes and spending. And all of these trends pale when we turn to the biggest story of all—the absolute explosion of household expenditure on housing and automobiles, with sales growing an astounding 35% annually from 2002–07. Simply put, none of the above smacks remotely of consumers dropping the ball.

As for China’s social and financial state, it is simply impossible to find another economy with per capita incomes under \$5,000 that can rival the mainland in the coverage of its urban pension system (much less any rural coverage at all), the availability of clinics and hospitals, the sheer size of the banking system as well as the availability of credit cards and mortgages, the relative number of publicly funded schools and universities, the equality of rural land distribution or the level of per-hectare agricultural yields. Of course none of these indicators can compare with those in advanced economies. But if the “social safety net” is the key factor behind China’s savings, then why don’t we see even higher domestic saving rates in Algeria, Bolivia, Cameroon, Egypt, Indonesia, Kenya, Mongolia, Philippines, Thailand or the remaining many dozens of nations with social indicators that fall considerably short of those in China?

And even if we *were* to accept that China’s welfare system was particularly to blame, then why 2003–07? After all, rural peasants have never had pensions; the big-

gest wave of urban unemployment had already come and gone more than a decade earlier, as did the initial drop in public-health and education spending. By contrast, this decade has seen a resurgence of government spending across all categories, the first major reworking of the urban pension system and the biggest upsurge in consumer leverage the country has ever seen.

True Source of Savings

BEFORE GOING ON, it must be admitted that Chinese households *do* save quite a lot, anywhere from 16% to 18% of GDP, which is a very high number by either developed or emerging standards. But here's the crucial catch: When we look at the veritable explosion of *increased* savings coming out of China over the past five years, virtually none of it came from the household sector. Rather, according to the best available estimates based on flow of funds data, the real story is the sudden rise of gross *corporate* savings, which shot up to more than 26% of GDP by 2007 from about 15% of GDP at the beginning of the decade.

In national accounts parlance, "gross corporate savings" is nothing more than total corporate earnings, or corporate profits. So over the space of a few years Chinese profits shot up dramatically as a share of the economy and by far more than could be reasonably invested at home.

How did this happen? Did individual Chinese companies suddenly become more profitable? Surprisingly the answer is no, not at all; unit margins haven't really increased over the last decade. And this leads to the very paradoxical (but absolutely verifiable) picture in the nearby chart. The green bars show the path of industrial margins in China, and as you can see gross profits as a share of total revenues have been very stable; meanwhile, the blue line shows the path of those very same gross profits as a share of GDP ... and this ratio has increased

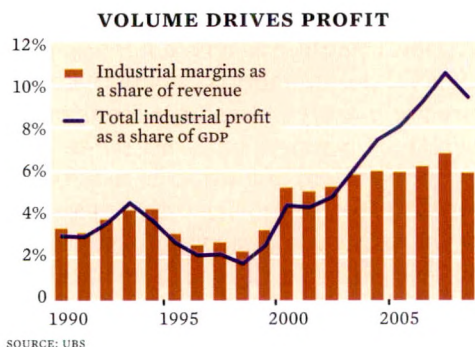
very sharply since 2002.

How could aggregate profits go up if individual profit margins did not? The answer is a truly stunning expansion of industrial sales revenue relative to GDP, more than doubling over the past seven years. Equally surprising is that there **was** no sharp increase in sales coming from **traditional** export goods such as toys, **textiles** or information-technology electronics, **i.e.**, the stuff that goes to feed the voracious **U.S.** consumer. Rather, the action came **from** heavy industry, and specifically areas **such** as steel, aluminum, cement and other **basic** materials, autos and auto parts, **machine** tools and specialty chemicals—**i.e.**, mostly sectors that support the domestic housing and auto boom.

If this is all a bit confusing, then it might help just to think about the steel sector, which was one of the biggest single contributors to the heavy industrial boom. If China used to produce and sell \$1 worth of steel per unit of GDP in 2002, by 2007 it was producing and selling three, an astonishing increase in capacity over such a short period of time.

Where did all that steel capacity go? The short answer is that roughly half of the supply increase was actually "needed" at home, to satisfy China's rising domestic demand for housing and property construction as well as fixed-asset investment. The other half was surplus capacity—and ended up being "exported" abroad into global market.

I say "exported" because China began in 2002 as a sizeable net importer of steel and steel products, so the first thing that domestic producers did was to take over market share at home from foreign suppliers. It wasn't until 2005 that Chinese steel companies actually began exporting outright in large quantities. But in terms of the impact on the trade surplus, it didn't really matter; it was precisely the full swing from a net import to a net export



position in steel, other metals, and basic material and machinery that accounted for the bulk of the rising trade surplus. It was this historically unprecedented “market-share grab” that allowed the economy to record a much bigger expansion in heavy industrial sales and earnings than it otherwise could have, pushing up both the domestic savings ratio and the trade balance dramatically in the process.

In other words, no one put off consumption in Chinese homes, and U.S. households were not exactly borrowing from poor peasants toiling in the fields and factories to make the cheap consumption goods they demanded. In fact, in some sense these are not really *Chinese* savings at all. Of course the excess income accrued to mainland companies, but that income was earned by taking industrial market share away from foreign producers.

Why did Chinese companies and their local-government sponsors invest so heavily in production of steel and other heavy industry capacity, even as the central government was trying to apply the brakes on such projects? There is clearly an element of bandwagoning and irrational exuberance in this story, one that has repeated itself throughout mainland boom-bust cycles in the 1980s and 1990s. But remember that in the early 2000s producers in such industries were reaping massive profits, and demand was growing quickly. As with most bubbles, it started with a response to

market fundamentals and then radically overshot.

China and ... Saudi Arabia?

THIS THESIS MAY sound more than a little exotic by the standards of most global economies, but there is a group of countries that regularly show almost the same macroeconomic trends as China. Think about an economy like Saudi Arabia when it first strikes oil. What happens to the national accounts? First, the sudden increase in exportable fuel production is shipped abroad, leading to a massive increase in the trade surplus. Second, the counterpart to that rising trade surplus is an equally large increase in domestic savings, as export earnings pile up in the government and oil companies’ coffers. And third, the domestic consumption share of GDP falls precipitously, as only a small share of those export earnings actually make it to the pocketbooks of Saudi households.

So we see a sharply rising savings/GDP ratio and a sharply falling consumption/GDP ratio, but does it automatically follow that Saudi consumers suddenly dropped the ball and began saving more—and that the economy can be rebalanced by unlocking hidden reserves of household savings? Not in the least. Again, those savings didn’t come from *inside* the Saudi economy at all; they came from selling oil abroad. And the Saudi consumption ratio fell not because consumers were spending any less, but rather because the size of the overall economy suddenly expanded around them.

And so it is in China—with the sole difference that instead of oil, the Chinese “struck” steel and basic materials. The impact on the mainland national accounts is precisely the same: Rising heavy industrial capacity leads to a rapid expansion in net exports, GDP growth and gross savings. Meanwhile, Chinese consumer incomes and spending continue to increase at the

“same old” pace of 8% to 9% in real terms, i.e., nothing has changed for mainland households and China is still one of the fastest-growing consumer economies in the world. But with excess supply growth pushing overall GDP into the 11% growth range, you get a sudden trend decline in the household consumption *ratio*.

Real Rebalancing

SIMPLY PUT, THERE’S nothing disastrously wrong with Chinese demand—it’s heavy industrial *supply* growth that was far too strong. This has very different implications for eventual policy solutions. In such an environment the most likely and effective rebalancing does not come from spending more at home; China expropriated those savings from abroad in the form of market share gains, and a “true” rebalancing means giving those savings back.

What kind of policy measures can work? The following three top our list, in increasing order of likelihood and importance.

- *Extract savings from companies and give them to households.* One of the reasons that the Gulf countries, Russia, Kazakhstan and other major oil and fuel exporters can sustain ultra-high saving rates over a protracted period of time is that export earnings accrue to a very concentrated group of entities, usually a few oil majors and the government. Average citizens and households do receive public spending benefits and sometimes mild dividends, but they are not the residual claimant on the exporting assets and as a result have no feasible way of “spending” the surpluses.

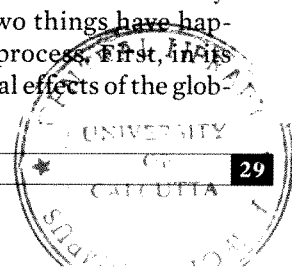
Very much the same is true in China. The massive surge in heavy industrial supply and exports did not lead to much of an income boost (if at all) for average consumers; these are mostly state-owned or local government-led companies, and even the word “state-owned” is not really cor-

rect in the case of China since there is very often no residual claimant on earnings at all. The state normally doesn’t receive dividends, minority shareholders are usually small and fragmented, and in this environment large companies often have nothing to do with profits but reinvest them or simply accumulate assets.

As a result, there is a compelling mandate for corporate ownership reforms that would provide for a more direct and immediate transfer of profits to major shareholders, including the government as well as households. However, just as in the case of the oil majors mentioned above, a compelling argument in theory can take decades to be implemented in practice; Chinese policy makers have been talking about dividend reforms for a very long time already, and we would be shocked to see any significant change in actual flows within the next 10 years.

- *Stop building steel mills, and maybe even close some down.* Next up is the most logical consistent measure of all—and as of 12 months ago the one that seemed most likely as well. If the source of the problem was a wave of excess capacity creation in key metals and materials sectors, then why not just stop building that capacity and perhaps even shut some of it down? This would be a nice, neat way to reverse the course of rising surpluses and give some of those “stolen” savings back, as rising Chinese domestic demand gradually ate through the capacity overhang and eventually brought the economy back to a more natural net import position once again.

For a while in 2007 and 2008 it looked as if this was the way China was going, as low capacity utilization rates in sectors such as steel and autos, together with the weakening global economy, led to a visible slowdown in new investment activity. However, this year two things have happened to derail this process. First, in its panic over the potential effects of the glob-



al crisis, the government successfully engineered a stunning pickup in private housing construction and state infrastructure spending, both of which have caused an explosion of new local demand for industrial materials. Of course the external trade balance has fallen sharply as productive capacity was quickly diverted to the domestic market, but the resulting sudden rise in capacity utilization also makes these sectors more attractive as a new investment destination.

This brings us to the second and more important concern, which is that any semblance of new lending discipline seems to have been thrown to the wind as banks were encouraged to lend to anyone and everyone who walked through their doors. A big stimulus “burst” that boosted domestic demand in the near term and helped take up slack capacity would not be such a bad thing, even if it were a very temporary phenomenon, as long as it didn’t result in another wave of productive capacity creation. But the worst of all possible worlds would have to be a short-lived demand stimulus program that resulted in yet another massive, long-term capacity overhang. And the crazed money- and credit-growth numbers of the past 12 months give plenty of reason to worry that this might be where we’re headed.

✱ *Move the exchange rate.* It’s far too early to be sure, of course, and we could be pleasantly surprised at how moderate Chinese companies are in their new expansion plans. However, if we do wake up with yet another round of credit-fueled heavy industrial growth and a renewed jump in the external balance back to 2007 highs, this really leaves China with only one possible policy response—to let the renminbi strengthen, and by considerably more than we have seen to date.

There has never been much logic in the arguments of the “Bretton Woods II” camp, who claim that it was precisely a

structurally undervalued exchange rate that caused the growth of industrial capacity in the first place, and that exchange-rate factors also artificially suppressed domestic consumption demand as well. Nonetheless, they may be absolutely right that a much more significant exchange-rate adjustment is the only lasting solution to China’s current imbalances.

This is a very different view from the “savings fundamentalists” such as Nobel Prize-winner Robert Mundell, who has consistently argued that moving the currency can do nothing to change China’s savings rate and thus would have no impact on the external current account. If China’s surpluses came from millions of households putting off purchases and storing away pennies for a rainy day, we would have some sympathy for this view. But since the real story behind rising national savings is essentially a market-share grab, as a flood of new domestic producers steal earnings away from foreign counterparts, letting the renminbi appreciate turns out to be a very efficient way of reducing the savings rate—and giving those savings back.

How does it work? Very simple: By reducing the local-currency equivalent from a dollar’s worth of exports, a stronger renminbi immediately makes Chinese heavy industrial producers less competitive vis-à-vis overseas competitors, and this lowers the aggregate amount of corporate savings through two channels: lower domestic margins on every unit of foreign sales, and lower sales volumes at home and abroad, as foreign producers claw back market share. And this, needless to say, has the effect of reducing the external trade surplus as well.

In short, rather than obsessing about the state of China’s pensions and health care, steel capacity and the renminbi exchange rate are the two crucial indicators to watch. ■



Hatoyama's Quiet Revolution

by Tobias Harris

W

ITH YUKIO HATOYAMA'S Democratic Party of Japan winning an overwhelming majority in the lower house of the

Diet last August, the new administration is better positioned to implement sweeping changes in how Japan is governed than any government since that of his grandfather, Prime Minister Ichiro Hatoyama (1954-1956). Such changes include the relationship between cabinet ministers and bureaucrats, national and local governments, and elected officials and the Japanese public.

Though barely a month old, the DPJ-led government has already begun hinting at how it will function, its agenda for the year and the practical implications of the DPJ's quiet revolution. The party will have to make some compromises, but it is already clear that there will be no return to the former status quo: the Hatoyama government has begun laying the foundation for a lasting shift in Japanese governance.

The most significant change that has already occurred is the role of the cabinet in the policy-making process. As prime min-

ister, Mr. Hatoyama will not govern in the style of more dynamic Liberal Democratic Party prime ministers like Junichiro Koizumi and Yasuhiro Nakasone, who looked to the United States' presidency as a model for activist leadership. Instead Mr. Hatoyama appears to be the first among equals in a cabinet packed with the best politicians the DPJ has to offer. Naoto Kan—famous for taking on his ministry's bureaucrats while serving as health minister during the mid-1990s and who founded the DPJ with Mr. Hatoyama—is now deputy prime minister and head of a newly created national strategy office attached to the cabinet. Former party leader Katsuya Okada is foreign minister. Seiji Maehara, another former party leader, is minister for land, infrastructure, transport and tourism. Hirohisa Fujii, a former finance ministry official in the 1993-94 non-LDP coalition, is finance minister again, and Akira Nagatsuma, famous for attacking the LDP over the 2007 “vanishing” pensions

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scandal, has been given the health, labor and welfare portfolio.

These politicians have well-articulated ideas in their areas of responsibility—they will not be passively signing whatever documents their bureaucratic subordinates put in front of them. Nor, for that matter, will they simply follow the orders of the prime minister. Cabinet ministers will instead freely debate policies amongst themselves, often in cabinet committees, an institutional innovation borrowed from the United Kingdom, with the prime minister (assisted by Mr. Kan and Hirofumi Hirano, the chief cabinet secretary) serving as a “conductor” and having the final word on policies.

This process has been visible in debates over a plan mooted by Shizuka Kamei, head of DPJ coalition partner the People’s New Party and minister responsible for postal reform and financial services. The plan would institute a three-year moratorium on loan repayments for small- and medium-sized enterprises, as well as the ongoing debate over what to do about the U.S. Marine Corps air station at Futenma in Okinawa. The Japanese press has been quick to treat these open debates among cabinet ministers as evidence of Mr. Hatoyama’s shortcomings as a leader, but it might just be unaccustomed to the cabinet being the locus of policy making. Under LDP rule, cabinet ministers were often reading from scripts provided by bureaucrats, and cabinet meetings did little more than ratify decisions made by senior bureaucrats and the senior leaders of the LDP outside of the cabinet. It is too early to conclude that the Hatoyama government’s system has failed. Failure can be measured by the extent to which ministers question decisions after they have been made, but it is unreasonable to expect cabinet ministers to be in complete agreement about every policy on the agenda.

Before Mr. Hatoyama took office, he had to consider what role Ichiro Ozawa, the

previous party leader would play in his government. Dogged by a fundraising scandal but bolstered by his success in engineering the DPJ’s electoral victory, Mr. Ozawa posed a problem for Mr. Hatoyama. Inside the cabinet, he could have overshadowed the prime minister and steamrolled other ministers; outside of the cabinet, he could have undermined the DPJ’s plans to unify the cabinet and ruling party, using his clout to force the government to negotiate with him behind closed doors. Some commentators suggested that Mr. Ozawa would assemble first-term DPJ members into a powerful faction so he could dictate government policies, a method akin to how Kakuei Tanaka’s faction—to which Mr. Ozawa belonged—dominated the LDP during the 1970s and 1980s.

These fears appear to have been overblown. Though Mr. Hatoyama named Mr. Ozawa as party secretary-general, giving him an important position outside of the government, it appears that Mr. Ozawa will not use his position to undermine the government. Instead, he will probably control the party and its majority in the Diet in order to smooth the passage of legislation. Far from assembling new Diet members into a faction, press reports suggest that Mr. Ozawa wants first-term members to spend as much time as possible in their districts. He dissolved the party’s policy-research council, an organization whose LDP counterpart played a major role as the key vehicle for LDP backbenchers to inject themselves into the policy-making process. (He also informed DPJ backbenchers that they will not be allowed to submit their own bills—the cabinet will be responsible for legislation.) A number of positions that were occupied by different politicians under LDP rule have been rolled into Mr. Ozawa’s post or are occupied by his allies. Whether directly or indirectly, Mr. Ozawa is now responsible for election strategy, political financing and Diet strategy. He has proposed an ambi-

tious agenda for reforming the Diet, most notably including a prohibition on testimony by civil servants. Mr. Ozawa has admitted that they will continue to appear during this autumn's Diet session, but he will be working hard to revise the Diet law to include this prohibition (despite objections from the Social Democratic Party of Japan, another DPJ coalition partner).

The result is a streamlined system in which backbenchers will be expected to do little more than vote as party leadership instructs them. If the Hatoyama government falters, it will not be due to sabotage by DPJ backbenchers—or by Mr. Ozawa.

ONE MAY NOT be able to say the same about the bureaucracy; many analysts expect a repeat of the 1993-94 Hosokawa government, which was reputedly undermined by leaks and sabotage by bureaucrats. However, thus far the bureaucracy appears to have been largely cooperative with the Hatoyama government. Even the Ministry of Agriculture, Forestry and Fisheries (MAFF), whose administrative vice minister openly questioned the feasibility of the DPJ's agriculture policy proposals in June, has publicly declared its willingness to accept the leadership of the DPJ. It is an open question whether bureaucrats in ministries such as MAFF will continue to be cooperative, but for now it seems that they have decided that accommodation is the wisest strategy.

But some analysts worry that it is the politicians who have chosen accommodation—that the new government is backing off on its pledge to free itself from dependence on the bureaucracy. For example, the decision to appoint Jiro Saito, a former administrative vice minister of finance, as president of the Japan Post led the conservative daily *Sankei Shimbun* to ask whether the DPJ was reversing its stance and awarding Mr. Saito an *amakudari* position as the head of the postal system. More sig-

nificantly, the Ministry of Finance may have emerged as an important ally of a DPJ, which is desperate to trim wasteful spending from the budget and raid special accounts controlled by other ministries in order to finance the party's campaign promises.

Another worrying sign is the government's decision to delay legislation that would give the new National Strategy Office legal standing. The NSO, which is to be composed of legislators, bureaucrats, and outside experts, is envisioned as a body attached to the cabinet that would be involved in budgeting, economic policy and foreign policy, coordinating across ministerial lines.

Should we conclude that the DPJ marks less of a departure from LDP rule than the prime minister's rhetoric suggests? While the decision to delay granting the NSO formal standing could be a sign of weakening desire for radical change on the part of the government, it is far too early to tell whether the DPJ is abandoning its commitment to introducing a more dynamic political leadership. In fact, by drastically reducing the role of the ruling party in policy making, the DPJ has taken a critical first step to strengthening the power of the cabinet. Second, even Mr. Kan, perhaps one of the DPJ's most zealous advocates for a more Westminster style of government, has admitted that the DPJ cannot govern without the help of the bureaucracy. Despite occasional flights of rhetoric, the challenge for the Hatoyama government is shifting the balance of power between cabinet and bureaucracy so that it is the cabinet that is responsible for drafting the budget, setting policy priorities, and formulating legislation. The goal, as the new government made clear in a directive issued upon taking office, is to delineate the responsibilities of political officials and bureaucrats: "Politicians and bureaucrats will have a relationship character-

ized by separate duties. They will act as one in executing their duties for the nation and the people, each on the basis of these separate duties.” Making the government’s directive a reality will take time, starting with the struggle to reduce the 2010 budget to an acceptable level after ministries submitted requests, that once combined, constituted the largest initial budget request ever.

And as for the NSO, given that the office was a relatively recent addition to the party’s administrative plans—it was not included in its 2003 transition plan, for example—it is still not clear what role it is expected to play. Will it lead in policy making or will it serve as an independent advisory body to help cabinet ministers draft policies of their own? Given the uncertainty surrounding the NSO, delaying its official creation is hardly a cause for alarm.

Having spent its first month in office outlining how it will function, the Hatoyama government faces three challenges that will determine its durability.

- *Resolving the war of words with the United States over the future of Futenma.* Having raised the stakes over the military base even as the Obama administration insisted that it would not renegotiate the bilateral agreement on the realignment of U.S. forces, the Hatoyama government will have to find a way to defuse the situation without caving completely. The public, though largely indifferent to foreign policy, would still register its disapproval of the government if it appeared incompetent in handling the relationship with the U.S.—and if its pursuit of a new agreement with the U.S. distracted the DPJ from focusing on matters closer to home.

- *Including government programs in the budget.* The 2010 budget is important not just for the material impact of DPJ pro-

posals like its plan for more expansive monthly child allowances, but for the symbolic value: the DPJ would gain public approval should it demonstrate the ability to pay for its promises.

- *Winning comfortably in the 2010 upper house elections.* After four independents in the upper house decided to join the DPJ and after the party won two upper house by-elections in late September, the DPJ is only seven seats away from controlling absolute majorities in both houses. There is a possibility that Mr. Ozawa could lure enough defectors to build a majority before the election, but the Hatoyama government must still proceed on the assumption that they will have to do everything in their power to win a new mandate next summer. Whether or not the DPJ decides to rid itself of its coalition partners, winning the upper house will give it indispensable leverage in bargaining over policy.

The path to Mr. Hatoyama’s “revolution” is not without obstacles. Public opinion, thus far largely supportive of the government, could diminish should the prime minister or any senior party member become deeply entangled in scandal. The media, especially the conservative media, has already actively tried to undermine the government. The dispute with the U.S. over Futenma could turn into a more serious bilateral crisis. Bureaucrats could exploit a distracted government and push back against the Hatoyama government’s initiatives. The economy could dramatically worsen. Nevertheless, in its first weeks in office the Hatoyama government erected a system that should help it withstand the unexpected. If the government survives—and the odds are in its favor—the DPJ will have succeeded in engineering a remarkable shift in power away from unelected officials. ■



Small Green Steps for India

by Subhash Agrawal



A**FTER THE EARLIER BREEZY** optimism resulting from the United States-China agreement this past summer, the politics of climate change has turned harsh and competitive once again. There remains a wide gap between developing and developed nations over the sharing of costs of new low-carbon technology, and the larger mood is punctuated with shrill rhetoric on both sides. Aside from the European Union, everyone else looks like a grudging participant, including the U.S. Even Danish Prime Minister Lars Lokke Rasmussen, host to the talks, reportedly said that he is no longer looking to deliver a "treaty" but rather "a political declaration" that would provide no enforceable emissions cuts.

In contrast to this grim mood and despite often being portrayed as a spoiler, India remains rather upbeat and energized about climate change issues.

India's profile as a polluter is a complex story. Its per capita greenhouse gas (GHG) emissions are among the lowest in the world, only about 1.2 tons per year versus 19 tons for the U.S., 12 tons for the EU and

five tons for China. And at its current 8.5% rate of annual GDP growth, its future emissions will not even cross 3.5 tons by 2030, which is far below the projected levels for developed nations. So when it comes to per capita emissions, India is one of the least polluting countries in the world.

Given the size of its population, however, India is the fourth-largest emitter in total volume of greenhouse gases, a fact constantly underscored by Western activists. Going even further, almost the entire growth in carbon emissions in the next two decades is projected to be attributable to India and China. In other words, as a country India is very much a part of the problem.

Encounters between India and the West in climate talks have often been prickly, with Indian activists and negotiators upset by what they perceive as Western hypocrisy or preaching. This is especially true of the "no more coal" line that is de rigueur in Western conclaves, a well-intentioned thought but one which

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ignores realities in the developing world.

Irrespective of what the West says or does, India has its own reasons to be worried about its environmental health and security. Unbearable air pollution in most of India's big cities, caused by exhaust emissions from millions of cars on the road, is causing adverse health and ecological damage. The full impact of climate change on India could get much worse, resulting in crises such as extreme water scarcity, which could even lead to riots and the risk of military conflict with Pakistan over common water sources. The sheer economic and social strain of hosting millions of refugees from a submerging Bangladesh also presents a considerable challenge.

Numerous studies by climate experts show that the whole Indian subcontinent will suffer more frequent, severe floods, making large areas either uninhabitable or un-irrigable and precipitating a massive movement of people within the region. This incidence of extreme climatic events threatens India's rural economy and food security, and may cause huge social disruption in the near future.

Given the severe impact of global warming on its ecology, economy and human security, India should have been at the forefront of post-Kyoto negotiations. But until earlier this year, India was in fact a rather reluctant participant in the debate, and was relatively unfazed by the fervent calls by global activists for early action. It has resisted legally binding emissions cuts by using the "per capita" factor in its defense. Moreover, India has repeatedly highlighted unequal consumption patterns in developed countries as one of the main causes of global warming.

The Indian position has largely been guided by moral notions of equity and justice, while many developed countries, especially the U.S., have built their response around a belief in market mechanisms. In recent months, the U.S. has started pushing

the idea that as long as all countries create an open, transparent and competitive investment environment, market forces will take care of technology transfer to poor countries. However, India has not budged from its "pollutor should pay" proposal, and its strong leadership on this issue has spurred the belief among developing countries, as witnessed at the recent G77 climate meeting in Delhi, that they should be compensated by rich nations for any technology transfer.

So is India indifferent to climate change, or at least fatalistic about it? Some Western analysts have insinuated as much and castigated the country's elite for its recklessness. But that is not so; there is a method to the madness. India's emotional approach in global talks is shaped by its past, and its negotiating strategy by its present. First, there is an unspoken skepticism among Indians of claims made by foreign leaders—remnants of a colonial history, perhaps—and second, India is now trying to play catch-up with China in building social and physical infrastructure, things it neglected in earlier years of its reforms.

And so India's primary domestic imperative is to promote economic growth in every way. It wants to build world-class infrastructure, open thousands of new colleges, clean up city slums, modernize rural areas and create jobs. All this requires India to constantly seek new and affordable sources of energy.

The country has abundant coal, its primary energy source, and for it to shift in a major way to gas, solar, wind or even nuclear would be very disruptive as well as costly. Numerous studies by reputed Indian and international institutes show that at this stage of its development, India will forego almost one-third of its current GDP growth if it attempts to reduce CO₂ emissions within the 15% to 30% range over a period of 20 years, as is being demanded by some developed nations.

India has been stung by its negative image in Western circles on climate issues, and puzzled by the West's fawning response to China's rather fuzzy offers to reduce emissions. Which explains why in the past few months, India's Environment Minister Jairam Ramesh has launched a virtual blitzkrieg of initiatives, media interviews, policy statements and even summits with foreign leaders to beef up India's image and negotiating position. These measures include launching an ambitious Solar Mission Programme, hosting a two-day climate conference with the heads of G77 nations, signing an environmental agreement with China, showcasing India's progress in forestry and clean coal, and announcing the start of a new Indian research center for monitoring carbon emissions.

Overall, such initiatives have won India some favorable response among climate activists and have given it extra political support in the developing world. They have also enabled India to get renewed global attention for its view that developed countries have a greater moral and material responsibility to solve global warming. Speaking at the recent G77 summit, Indian Prime Minister Manmohan Singh asserted that the world's poor nations "cannot and will not compromise on development."

But in all this hurried activity, India has occasionally stumbled and looked rather foolish. Mr. Ramesh recently sent out confusing signals on whether India will accept external monitoring of its voluntary emissions targets. Earlier, he put forth some rather counterintuitive data on the impact of global warming on Indian glaciers in the Himalayas. Despite these missteps and its steadfast "common but differentiated responsibilities" theme, India looks set to go to Copenhagen with greater political confidence and desire to find a solution.

At Copenhagen, India will have three major goals. First, get subsidized alternative energy technology from Western na-

tions, or at least a promise for the future. Second, consolidate its leadership role in the developing world without appearing unreasonable to the West. And third, build a basis for future bilateral negotiations on technology sharing and investment.

There is increasing recognition in India that politically it cannot afford to stand aloof at Copenhagen, especially since it has already done so over negotiations on the WTO Doha Round, the Comprehensive Test-Ban Treaty and the Non-Proliferation Treaty. Being seen as a spoiler once again—no matter how unfairly—would imperil India's larger geopolitical aspirations.

There is also an economic imperative for India to cooperate with developed nations in quickly phasing out older, high-carbon technologies. Given its large entrepreneurial base, vast technical manpower and strong domestic market, India has the potential to become a major hub of green technology. Indian business is inspired by China's quiet but amazing success in becoming the world's largest manufacturer of solar panels and believes it too can capture a sizable market share of green technology.

Consequently, there is likely to be a quiet shift in nuance and attitude on India's part at Copenhagen. It may finally allow its own domestic GHG emissions targets to become part of future dialogue—rather than just "monitoring"—with other countries; it will implicitly accept its responsibility for mitigation. This is a fuzzy position, but it allows India to project itself as responsive to global concerns without irreversibly committing itself to specific targets.

But under no circumstances will India accept fixed-emissions caps, at least not for the pre-2030 timeframe and without Western guarantees on technology access and finance. India will be far more prepared than before to find workable solutions, but will not be forced into a radical shift from coal to less polluting energy sources. ■



Pyongyang Freely Plies the Seas

by Bertil Lintner

IN THE WAKE of North Korea's October 2006 nuclear test, the United Nations Security Council passed Resolution 1718, which bans Pyongyang from exporting any nuclear, chemical and biological material, ballistic missiles and any other components of weapons of mass destruction. WMD-related sanctions were tightened under Resolution 1874 passed in June 2009 following North Korea's second nuclear test in May. Before sanctions were introduced, United States defense sources estimated that 40% of North Korea's foreign-exchange earnings came from weapons sales, of which missile exports were a major part.

It seems highly unlikely that North Korea will give up such an important source of income just because of condemnation by the world community. It is no secret that North Korea has exported missiles and missile technology to Iran, Pakistan and Syria. Even Libya, Egypt, Vietnam, and the United Arab Emirates have at one time or another acquired missiles or missile components from North Korea or through North Korean front companies in Asia and

Europe. What is less known, however, is how the transport of these materials to their final destinations in the Middle East and elsewhere has been facilitated by entities operating in other countries. The North Koreans have always been masters at circumventing international sanctions—but the success of their clandestine operations also depends on the willingness of other nations to turn a blind eye to their activities. Even now, there is potential for WMD proliferation from North Korea through an elaborate, global network of ships operating under flags of convenience, cooperative governments, front companies and shady individuals working for Pyongyang.

One instance of a round-about operation was underscored in January this year, when the U.S. Treasury Department sanctioned two Taipei-based trade companies, Trans Merits and Global Interface, as well as its owner Alex Tsai and his wife Su Lu-chi. In June 2008, Taiwan's legal authorities indicted Mr. Tsai for exporting controlled hi-tech items to North Korea and entering

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false information on shipping documents, stating that the final destination was South Korea. Among the items shipped by Mr. Tsai and his companies were water filters for electro-discharge machines and second-hand computers, which could be used in North Korea's WMD industries. Dual-purpose goods that North Korea imports from other countries include chemicals, minerals and metals that have military as well as civilian applications. Some of these goods are controlled or restricted by international treaties while others are not.

Korea Mining Development Trading Corporation (KOMID), the North Korean entity receiving the goods, was designated a weapons proliferator by the Treasury Department in June 2005. KOMID also operated under a range of other names, adding to the confusion that usually surrounds North Korean arms' exports. Under the Changwang Sinyong Corporation, the External Technology General Corporation and other names, it has been identified as a supplier of WMD-related material to Iran and possibly other countries as well.

Though action was taken in Taiwan, North Korean front companies and officially registered state enterprises are active in several cities on the Chinese mainland. KOMID, for instance, maintains an office in Beijing's central Chaoyang District. The presence of KOMID and its sanctions-breaking activities are well-known to the Korean community in Beijing. An anonymous Korean blogger, apparently an exile from the Hermit Kingdom posting messages on a blog titled "Selling North Korean Weapons," states that the deals in Taiwan were organized by Ko Myong-hun, who works with his colleague Ryu Jin out of the KOMID office in

the inaptly named "International Friendship Garden" in Chaoyang. Mr. Ko is officially listed as a diplomat in Beijing. The details have been corroborated by diplomatic sources in the region. Legal experts monitoring proliferation activity and sanctions-breaking add that Mr. Ko was based in Macau in the 1990s, where he, with another North Korean individual, operated a company called Hap Heng, which handled sales of weapons and missiles to countries such as Pakistan and Iran. Today, Mr.

Ko reportedly receives delegations from Iran, Syria and Burma and takes their missile orders, which are handled either directly by KOMID, or through other, less conspicuous companies in China.

Apart from operating under multiple names, KOMID also serves as an umbrella for an even more bewildering array of branches and subsidiaries. In October 2005 the Treasury Department designated KOMID as the "parent company" of two targeted North Korean entities: the Hesong Trading Corporation and the Tosong Technology Trading Corporation. The two companies were accused of operating in Iran and Syria, and were sanctioned under Executive Order 13382. That was a year before U.N. Security Council sanctions were imposed. In December 2008, a North Korean freighter called the So Hung I sailed from North Korea to the Iranian port of Bandar Shahid Beheshti, and its arrival there was reported on the Iranian port authority's Web site. "We believe that the shipment was carrying missile-related items because KOMID showed a strong interest in the progress of the So Hung I and its cargo," said an Asia-based source who monitors proliferation activities in the region.

MV Bong Hoafan, a North Korean cargo

The success of North Korea's illicit export activity is a direct result of tacit support from other countries.

vessel, anchored at a Burmese port in November 2006, claiming that it was seeking shelter from a storm. The Burmese government reported that an on-board inspection had "found no suspicious material or military equipment." Yet the South Korean news agency Yonhap reported that the ship had been under "U.S. surveillance" and "was believed to have unloaded self-propelled artillery at a Burmese port."

In April 2007, only days after the restoration of diplomatic ties between Burma and North Korea, another North Korean freighter, the *Kang Nam I*, docked at Thilawa port, 30 kilometers south of the former capital Rangoon. Again, Burmese officials claimed that the ship had to seek shelter from a storm. But two local Burmese reporters working for a Japanese news agency were turned back and briefly detained when they went to the port to investigate, indicating that there could have been other reasons for the arrival of the *Kang Nam I* in a Myanmar port.

The *Kang Nam I* was back in the news this summer, again on its way to Burma with unspecified cargo. It left the North Korean port of Nampo in the beginning of June this year—and was immediately trailed by American warships. U.S. authorities branded the *Kang Nam I* a "repeat offender," known for having carried proliferation materials. The U.S. intervention attracted publicity in the international media, and on June 28 the ship turned around, just off the Vietnamese coast, in the South China Sea. The barely sea-worthy *Kang Nam I* had been detained by Asian port authorities several times for serious mechanical problems and faulty documentation since 2003, but on no occasion did local officials report that they had found any suspicious or banned material.

The *Kang Nam I* saga illustrates the complexities of North Korean shipping. Built in a German shipyard in 1989, it was first registered in St. Vincent and the Gren-

adines, a common flag of convenience country. It was then sold to South Korea, and in 2003, transferred to North Korea. The official owner of the vessel, Kumrung Trading in Pyongyang, is a small, state-owned company. According to an official North Korean trade directory, it exports "gold, lead and zinc" and other minerals, and imports "heavy-duty machines, rolling stock, mining equipment, and stone processing tools." That sounds suspiciously like yet another subsidiary of KOMID, officially a "mining company." The picture was further blurred by Burmese authorities, which denied that the *Kang Nam I* was on its way to one of its ports. Instead, they claimed, Burma was expecting the arrival of another North Korean ship, the *MV Dumangang* which was said to be carrying rice from India. Whether that ship ever arrived at a Burmese port is unclear, and it was never explained why Burma, a rice exporter, would have to import the same commodity from India.

In August, yet another North Korean ship, the *MV Musen*, was discovered by Indian authorities off the Andaman Islands in the sea south of Burma. After six hours of drama, Indian sailors fired into the air, the ship was detained and its cargo searched. It was found to be carrying 16,500 tons of sugar from Thailand to Um Qasr in Iraq. But it is not known why the ship was moving suspiciously around the Andamans. Asian diplomatic sources suspect that the *MV Musen* was "testing the waters" to see how alert the Indian authorities would be. If the ship had not been detained, it could have opened an alternative sea route to Burma other than the one followed by the ill-fated *Kang Nam I*.

According to Lloyd's Register, a maritime classification society, 223 of North Korea's 242 merchant ships are registered in the country. On occasion though, North Korea has used flags of convenience. Thanks to the friendship between the late

North Korean leader Kim Il Sung and Cambodia's former King Sihanouk, the royalist Funcinpec party set up a privately owned and royalist-controlled shipping registry in 1995, which was used by the North Koreans as a flag of convenience. Following a series of embarrassing incidents, however, including a massive seizure of cocaine off the West African coast from a Cambodian-registered—but not North Korean-owned—vessel in June 2002, the Cambodian government of Hun Sen cancelled the csc's concession and reportedly gave it to a South Korean company. But a North Korean, Cambodian-flagged ship named *So San* was soon afterwards intercepted by Spanish marines working on a U.S. tip, in the Arabian Sea. It was found to be carrying 15 scud-type missiles, 15 conventional warheads, 23 tanks of nitric acid rocket propellant and 85 drums of unidentified chemicals under a cargo of cement bags.

The immediate destination was said to be Yemen, a new buyer of North Korean missiles. Pyongyang lashed out against the raid on its ship, calling it “an unpardonable act of piracy that wantonly encroached upon the sovereignty” of the North. The ship, the North Koreans said in an official statement, “was sailing for Yemen to deliver cargo in accordance with the lawful trade contract between the two countries,” and the U.S. “imperialists” were “unrivalled barbarians and aggressors ...” In the end, the U.S. decided to release the lethal cargo since Yemen was seen as a “friendly nation.” Later investigations revealed that the missiles and chemicals were ultimately delivered to Libya.

Some people have questioned the extent to which the central authorities in Pyongyang are implicated in these illicit activities. In an otherwise very informative paper for the U.S. East-West Center in August, British researcher Hazel Smith argued that the authorities may not be directly involved because the ships are privately owned. Ms.

Smith referred to a 1999 Singapore court announcement which stated that North Korean ship owners should not be considered as “controlled by the North Korean government just because they are domiciled in that country.” Both Ms Smith and the Singaporean authorities, however, are splitting hairs. They overlook the fact that private ownership does not exist in North Korea. Corporations such as Kumrung Trading, the owner of *Kang Nam I*, are all government entities. KOMID, the spider in the tangled web of North Korean proliferation, is an overt arm of the shadowy Bureau 39, the commercial wing of the ruling Korean Workers' Party controlled by North Korean leader Kim Jong Il.

The Obama administration argues that engagement with “hostile” nations such as North Korea is more effective than antagonism. But there is also a danger in this policy, since North Korea may take advantage of a more lax attitude on the part of U.S. authorities and carry out its proliferation activities more easily. The issue is further complicated by the questionable legality of the U.S.-led “Proliferation Security Initiative,” which was implemented under the previous administration of George W. Bush. In November 2006, U.S. researcher Mark J. Valencia wrote that the kind of interdictions allowed under the initiative would, “without the permission of the flag country on or over the high seas ... be considered an act of war.”

A more peaceful approach that is still in line with the Obama administration's policies could be to seek more effective cooperation from countries in the region. While Taiwan has taken action against its sanctions violators, KOMID's presence in Beijing has been mentioned by diplomats as a serious cause for concern. Without better regional cooperation, the increased use of flags of convenience means that North Korea's ships may continue to ply the oceans with their lethal cargo. ■



Who's Listening to Taiwan's People?

by Julian Baum



A DECADE AGO, THEN Taipei Mayor Ma Ying-jeou led a small band of students in a candlelight memorial for the victims of the Tiananmen Square massacre. It was the 10th anniversary of the crackdown in Beijing, and tens of thousands were gathering in cities around the world.

There was little interest in the anniversary in Taipei though. Mr. Ma was accompanied by only one other official from his party, Shaw Yu-ming, vice chairman of the Kuomintang, along with a dozen or so members of the party's China Youth Corps. It was characteristic of Mr. Ma, with his anticommunist leanings and his concern for China, that he showed up that evening. In the years after 1989, he was one of the rare officials in the KMT to speak publicly against the brutality of the June 4 events and in support of Chinese democracy.

Since his inauguration as Taiwan's president 18 months ago, Mr. Ma's criticism of the Beijing government has gone mute. And unlike most other Taiwanese and even members of the KMT, he pro-

motes a national identity under the label of "one China." The identity—which was dormant during his presidential election campaign, when he effusively praised the "Taiwan spirit" and submersed himself in "long stays" in the rural south of the island—has resurfaced in the past year. It has been an obvious factor in getting Beijing to sign on to agreements opening direct links across the Taiwan Strait.

Since becoming president, Mr. Ma has proclaimed that the people of Taiwan are members of the "Chinese nation," and has commended the virtues of the "Chinese race," most prominently in his inaugural address in May 2008. His language is often identical to that of Chinese President Hu Jintao, who has praised the "historic turning point" in cross-strait relations after Mr. Ma came to office.

During the tenure of Taiwan-born Lee Teng-hui as president of the Republic of China in the 1990s, a majority of citizens for the first time began to publicly identify themselves as "Taiwanese." Polls since

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then have shown that most people on the island no longer conflate their ethnic and their political identities. Many Taiwanese say they see little to admire about the society across the Taiwan Strait except its economic vitality.

As Mr. Ma pursues an ambitious agenda that will require more accommodations with Beijing, he will need to deal with this popular affirmation of Taiwanese identity. "I can see how much the president wants to get our Chinese identity back, but I don't see anyone buying it," says a British-educated CEO of an import company in Taipei. "It was easier for Lee to let the genie of Taiwanese identity out of the bottle than it will be for Ma to put it back in."

With the easy ribbon cutting for a new era in cross-Strait relations behind him, Mr. Ma seeks a legacy that goes beyond opening direct links with China. But he faces many pitfalls that could prevent his re-election. He is struggling with dismal public approval ratings that have stayed below 30% for most of the past year.

Before even reaching the midpoint of his four-year term, Mr. Ma's government has already faced extreme difficulties. Not only has the administration had to confront the worst recession in Taiwan's history and record levels of unemployment, in August Typhoon Morakot, the worst natural disaster in a decade, left over 700 dead. Mass street protests have erupted over the erosion of democratic rights and civil liberties, and there has been ongoing international criticism over the politicization of criminal justice, with dozens of indictments and investigations involving the former government.

"Mr. Ma is losing time in the run-up to his re-election in 2012," says Liu Shih-chung of the Brookings Institution in Washington, who served as a senior advisor to former President Chen Shui-bian. "He's in desperate need to come up with some concrete 'achievement' as a way to

launch his re-election campaign beginning next year."

Mr. Liu has noted there is the prospect of a game-changing meeting in 2011 between Presidents Ma and Hu, coinciding with the 100th anniversary of the Qing dynasty's demise. In light of the popular disdain toward KMT leaders Lien Chan and James Soong for their meetings with senior Chinese leaders, this potential meeting would have considerable downside risk. But if carefully managed, Mr. Liu wrote in the Taipei Times, the symbolism could boost Mr. Ma's re-election and set the stage for political talks in a second presidential term.

Well before that could take place, Mr. Ma expects to sign a comprehensive economic framework agreement (ECFA) with China; talks between the two sides are expected to begin in December. As a tailored version of Hong Kong's Closer Economic Partnership Arrangement, which was signed with Beijing in 2003, it would put commercial and financial integration across the Taiwan Strait on an irreversible course and, among other things, widen access to China's domestic markets for Taiwanese manufacturers on the mainland.

Yet uncertainties about the content and unintended consequences of ECFA as well as suspicions that it would compromise Taiwan's autonomy may slow the process. Even members of the KMT say they are in the dark about the proposed agreement's provisions and its effects. The government's sales pitch on ECFA has been heavy-handed, which suggests to some critics they are promoting a done deal rather than preparing to negotiate an agreement.

A government-funded study by the Chunghwa Institution for Economic Research concluded that ECFA could add 1% to annual GDP. But the full findings by industrial sectors have not been released, and no independent economists have been as confident about its impact, especially

since the exact provisions are unknown.

The uncertainty and general distrust have given rise to understandable paranoia. Former President Lee Teng-hui called the proposal Mr. Ma's "ultimate unification scheme." An editorial in the pro-independence *Liberty Times* described how many Taiwanese feel about an open-ended agreement with China: "The effect is like handing over your ... ID card, the contract for your house and a whole book of blank checks to a stranger. No one in their right mind would do such a thing."

Some businesses expect benefits from inbound Chinese investment, including Taiwanese construction companies, property developers and the island's overcrowded securities industry. But studies show these benefits could be heavily offset by industries that will see no upside and may be seriously disadvantaged from the "total normalization" of economic and financial relations that Mr. Ma advocates.

Others suspect that Mr. Ma has been disingenuous about an ECFA facilitating other free trade agreements, especially with Southeast Asia, where China and the Association of Southeast Asian Nations plan to launch the world's largest free trade zone next year. Mr. Ma recently told *The Australian* that he wanted to sign additional agreements, including with Australia. But there has been no official comment from Beijing, while one Chinese economist has commented that Beijing would be absolutely opposed. If so, it would abort the KMT's strongest talking point: that the pact is "absolutely necessary" for Taiwan's greater integration into global commerce.

Other analysts see the main beneficiaries of ECFA as Taiwanese companies operating in China who want broader access to Chinese domestic markets. "What's good for Acer or Honhai is not necessarily good for Taiwan," says a Taipei securities analyst, naming two electronics manufacturers. "These companies don't even provide

new jobs in Taiwan anymore. They pay almost no taxes and don't repatriate profits. They are 'Taiwanese' in name only."

A survey conducted by Global Views, a Taipei magazine, showed that most Taiwanese still prefer the so-called political status quo—Taiwan as a de facto independent state which is clearly not a part of the People's Republic of China, with informal relations with most countries. Surprisingly, only a fraction of "mainlanders"—families that arrived in Taiwan with Chiang Kai-shek in the late 1940s and who are presumed to be the core constituency of the KMT's unification doctrine—supported reunification with the P.R.C.; in the survey a mere 23% supported unification now or in the future, while 56% rejected it.

The Global Views survey shows how divided the island continues to be on fundamental issues of identity and nationhood. The divisions pose political risks for the government's aggressive agenda to move the cross-strait relationship beyond the obvious steps taken so far.

In his National Day address in October, Mr. Ma acknowledged the public's fears about sacrificing sovereignty and national security. He seemed ready to listen more. "We are willing to engage in dialogue via all sorts of channels, including the Legislature and political parties, in order to forge a public consensus on this government's mainland China policy," he said.

Yet there is no indication that the president is ready to step back and either consider a less compromising strategy or abandon his "one China" framework. Meanwhile, Beijing is pressuring him to do more, and Taiwan's election calendar has its own momentum. Thus, the government's attitude appears to be full speed ahead. If this means that Taiwan is beginning to look reminiscent of Hong Kong's "one country, two systems" model, then the voters could choose differently in 2012. ■



U.S.-India Ties: A Long Road for Obama

by Harsh V. Pant

BARACK OBAMA SAYS he regards India and Indian Prime Minister Manmohan Singh "as part of his family." "This is the reason why I decided to invite Manmohan Singh, who I admire a lot, on the first state visit of my presidency on Thanksgiving Day," Mr. Obama told prominent Indian-American leader Sant Chatwal recently. Indian media prominently carried this statement, and given the importance Indians tend to attach to family connections, much is being read into the symbolism of Obama's invite.

As the Indian prime minister prepares to be the first state guest of the Obama presidency on Nov. 24, both sides are leaving no stone unturned to ensure that the visit lives up to the hype. Will all the pomp and ceremony be sufficient to gloss over widening policy differences between the two states?

The visit comes at a time when there is a real concern that Indo-U.S. ties are adrift. Even a year after Mr. Obama's victory, Indians have yet to gain comfort with his presidency. India continues to pine for George W. Bush, whose single-handed re-

versal of the entrenched U.S. hostility towards India on Kashmir and nonproliferation makes him one of the most important U.S. presidents for India.

Indeed, the strengthening of U.S.-India relations might turn out to be one of the most significant achievements of the Bush administration's foreign policy. Whether he was preventing the non-proliferation lobby from wrecking the hugely significant civilian nuclear energy cooperation pact, or using his clout to bring recalcitrant nations in the Nuclear Suppliers Group around, Bush was ready to spend any amount of political capital to build a new partnership with India. For eight years, India occupied a pride of place in the strategic calculus of the US. India was wooed as a rising power. It was seen as a pole in the emerging global balance of power and as the primary actor in South Asia, de-hyphenated from Pakistan. And then it was given what it had long desired—a de facto status as a nuclear weapon state.

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On the other hand, Mr. Obama's tryst with India started on a wrong note. His tough stand against outsourcing during his presidential campaign and talk of a tax agenda punishing companies who "shop jobs overseas" did not go down well in India. The Indian Prime Minister apparently was not on the first list of leaders to receive a call from Mr. Obama after his victory, and Indian strategic elites, obsessed with symbolism in international diplomacy, thought that India would not be viewed as an important player. In the beginning, Mr. Obama only mentioned India when discussing how to sort out Kashmir to find a solution to America's Afghan troubles. The talk of a strategic partnership all but disappeared.

The immediate challenge of dealing with a growing Taliban threat in Afghanistan and Pakistan led the Obama Administration to adopt a very different set of priorities in which India seemed to have a marginal role. When Mr. Obama decided to make Asia the new pivot of his foreign policy, it didn't appear as though India had a place on his agenda. Instead, his administration flirted with the idea of G-2, a global condominium of U.S. and China whereby China could be expected to look after and "manage" the Asia-Pacific.

But the administration soon began to recalibrate its policy response toward India. The U.S. started to backtrack after it said it would play an active role in the resolution of the Kashmir conflict, saying that it was neither trying to "negotiate" a dialogue between India and Pakistan nor pressuring the two to resume bilateral talks. It also underlined that India's role was vital for the success of U.S. AfPak strategy, but none of India's inputs were accepted when the Obama administration formulated its strategy toward the region.

Though many Indians continue to believe that India and the U.S. share a common interest in tackling terrorism and

extremism, the U.S. remains lukewarm to the idea of involving India in its larger strategy towards AfPak for fear of antagonizing Pakistan. India feels that it showed great restraint in the aftermath of the Mumbai terror attacks in November 2008, yet Washington seems intent on sidelining Indian concerns even as India is now being targeted directly in Afghanistan by the extremists for its reconstruction works. Gen. Stanley McChrystal's view that "increasing Indian influence in Afghanistan is likely to exacerbate regional tensions" is seen as indicative of U.S. attempts to marginalize India in its Afghanistan strategy. Meanwhile, Pakistan continues to drag its feet in bringing the masterminds of the Mumbai terror attacks to justice as demanded by both India and the U.S.

Hillary Clinton's visit to India in July aimed at re-stabilizing Indo-U.S. ties, and she managed to secure several concrete agreements. The two countries finalized a deal which allowed U.S. companies to sell sophisticated weapon systems to India. Space cooperation also got a boost with an agreement that facilitated the use of U.S. satellites and satellite components on Indian launch vehicles. As a framework for future talks, Ms. Clinton announced a six-pillared bilateral strategic dialogue covering issues ranging from defense and nonproliferation to education and agriculture, the most wide-ranging and comprehensive dialogue "that has ever been put on the table" between the two states. Yet as Ms. Clinton found during her talks in New Delhi on climate change, the divergence between the two democracies is growing on three critical issues of global significance—climate change, global trade negotiations and non-proliferation. All three are priority areas for Mr. Obama and the next few months are likely to see much multilateral activity on these fronts.

Climate Change

WITH A NEW United Nations climate treaty due to be agreed in Copenhagen in December, Washington and Delhi are trying to bridge their differences on how to curb greenhouse gas emissions. The United States wants developing countries such as India and China to control the emissions being produced by their rapidly growing economies, setting time-bound targets to this effect. Yet India argues that it has one of lowest emissions per capital. It maintains that the U.S. proposal would hurt its economic growth and wants the industrialized world to curb its pollution as well as fund new technologies in the developing world. Not only will it be politically difficult to agree on binding targets, it will also be near-impossible for the Indian government to abide by any such targets.

One of the major stumbling blocks in global negotiations on climate change has been the reluctance of the developed world to make adequate transfers of finance and to enable technology in the developing world. This would help the developing world reduce emissions without incurring as many out-of-pocket costs. India is seeking a bilateral arrangement with the U.S. on this issue with an understanding that it can serve as a model for an agreement between the developed and developing world at Copenhagen.

Trade Negotiations

THE WORLD TRADE Report 2009 has suggested that world trade may shrink by an unprecedented 10% this year. Given this bleak outlook, a revival of the Doha round of trade talks can send the right kind of signals to various stakeholders in the global economy. Both the United States and India have hinted that they are ready to re-launch efforts to reach a new global trade deal under the Doha negotiations.

The Doha talks collapsed last year after coming very close to an agreement primarily because of differences between Washington and emerging economies, led by India, over proposals to help farmers in poor nations. The U.S. and India have serious differences on the level of protection that can be given to farmers as and when the global market for farm products is opened up. The U.S. suggested that developing nations such as India need to provide greater market access for the talks to advance. India argues that it cannot compromise on food security and livelihood concerns even as the U.S. and the EU remain hesitant about scaling down their own agricultural subsidies. It is possible that India would be more willing to make unpopular concessions at home for the sake of collective economic gains, but this can happen only if the developed world provides reciprocal concessions by phasing out its own agricultural subsidies, which is highly unlikely given the current economic turmoil. Though the dismal state of the global economy and the need to revive global trade may prompt the U.S. and India to rethink their earlier strategies, domestic political constraints remain as strong as ever.

Non-proliferation

THE G-8 STATEMENT on non-proliferation at the L'Aquila summit in July came as a major surprise for India. The statement committed the advanced industrial world to implementing on a "national basis" the "useful and constructive proposals" towards strengthening controls on enrichment and reprocessing (ENR) items and technology. It underscored the importance of the Nuclear Non-Proliferation Treaty (NPT), insisting that those states that have not yet signed the treaty join. It was just last September that the Nuclear Supplier's Group (NSG) had agreed to grant

India a clean exemption, thereby allowing nuclear exports of sensitive technology under safeguards to India.

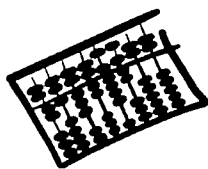
The G-8 agreement on banning the ENR items to countries that are not signatories to the NPT effectively puts the future of the landmark U.S.-India nuclear deal of 2005 in jeopardy. While India will still be able to buy nuclear fuel and reactors from the G-8 or NSG countries, questions have arisen about the intentions of the Obama Administration regarding the future of the deal, and whether it would try to further dilute the bargain contained in the "India exemption" of the NSG waiver of last year.

The Obama Administration cannot make meaningful progress on its non-proliferation agenda unless it brings India into the fold of the global non-proliferation regime. With the administration trying push through the Comprehensive Test Ban Treaty and the Fissile Material Cut-off Treaty, the trouble for India might just be beginning. Though Washington has made it clear that it will honor the commitments of the nuclear pact, the text remains open to interpretation, and Delhi fears that it will be a particularly restrictive reading of the text under the present political dispensation. For India, the fact that it is already negotiating with the Russians and the French mitigates some of the impact of this uncertainty. There is also hope that the American private sector will not allow any dilution of the text for fear of becoming less competitive, underscoring the conflicting commercial and non-proliferation agendas within the U.S. system.

In many ways, these developments underline the unique position that India holds in the global nuclear hierarchy. It is an outlier in every way. While the non-nuclear weapon states resent the special treatment granted to India by the U.S.-In-

dia nuclear pact, they are reluctant to allow the emergence of another nuclear state. The Bush Administration recognized the importance of resetting the terms of global nuclear discourse and of bringing India into the larger non-proliferation framework as a responsible nuclear state with an advanced nuclear technological base. Mr. Obama has decided to take a more traditional view of the problem, linking the issue of nuclear proliferation to the strengthening of old treaties. This has again put India on the defensive. A defensive India surrounded by two nuclear adversaries who have been colluding on nuclear issues for the last three decades is never going to be a part of the 1968 nuclear non-proliferation regime.

These underlying differences between the U.S. and India are now forcing a re-assessment of their relationship. While economic and social relations will retain their momentum, political frictions are likely to intensify in the near future. Burgeoning defense ties between the two notwithstanding, India's domestic politics as well as its desire for "strategic autonomy" make it highly unlikely that this country will ever emerge as a close ally of the U.S. in the traditional sense. If Americans are hoping to cultivate another ally, India, for sure, is not the right candidate on which to expend its energies. For all the hype about India and the U.S. being "natural partners," neither country is used to partnerships among equals. India remains too proud, too argumentative and too large a nation to offer itself as a junior partner to any state, including the U.S. How the two democracies adjust to this reality will shape the future of their relationship. A mere Thanksgiving invite to the Indian Prime Minister will not be of much help. ■



How Rudd Is Undoing The Aussie Miracle

by Tom Switzer



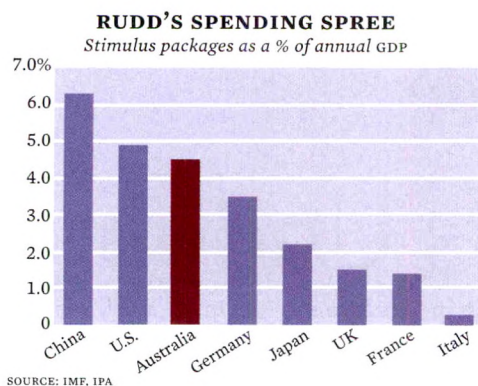
AS THE WORLD searches for new models to address the after-effects of the global financial crisis, Australia deserves a closer look. The country is now the envy of the industrialized world, having recorded faster growth than the United States this decade, even as it provided universal health care and other social services that the U.S. does not. The economy has also weathered the crisis better than its peers: unemployment is at 5.7% (compared with 9.5% in the U.S. and 7.9% in Britain); the equity market has reached 12-month highs; the Aussie dollar is heading toward parity with the greenback; growth forecasts are so bullish that Australia is the first G20 nation to raise interest rates since the global downturn, and it is widely praised as the best place to invest because it is free of banking crises.

When John Howard became treasurer 32 years ago, Australia was an over-regulated and over-protected nation, weighed down by chronic inflation and union militancy. By the time Mr. Howard retired as prime minister in 2007, the country had undergone a thorough transformation, includ-

ing financial market deregulation, tax reform, freer labor markets, import-tariff reductions and privatization of state-owned enterprises. Wages, economic growth and the stock market were up, while unemployment, inflation, and even interest rates were down. The Coalition government had paid off its predecessors' A\$96 billion debt and A\$10 billion budget deficit.

The irony, however, is that the current government, led by Kevin Rudd, is in the process of repudiating the free-market approach that has served Australia so well and is rolling back the reform agenda of the last three decades. In the past year, it's become fashionable to blame capitalism for the world's economic ills and to predict the end of the three-decade bull run in economic conservative ideas that began with Margaret Thatcher's election in Britain in 1979 and Ronald Reagan's ascendancy in the U.S. in 1980. The specter of big govern-

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ment has returned to haunt Australia.

In essence, Mr. Rudd champions a new paradigm that shifts his nation's priorities from private to public power. He is interpreting this moment in history as a mandate for a renewed activist state. He insists that "the great neoliberal experiment of the past 30 years has failed," and that it has "not served Australia well in preparing for the current crisis." In many respects, the Australian Labor leader's economic-stimulus packages—taken together with his laws to beef up union power in the workplace, plans to introduce an emissions trading scheme and efforts to increase the power of public-health system—reflect this new interventionist mindset.

There has long been a statist culture Down Under. Since independence from Britain in 1901, big government had manifested itself in various ways: import protection to guarantee domestic profits and an arbitration system to stand between capital and labor by guaranteeing a share of the protected pie for workers. Not surprisingly, this stifled the nation's development, and by the early 1980s, Australia was economically insular, bogged down by protectionism, over-regulation and chronic inflation.

The tide began to turn when a group of free-market-oriented thinkers took a stand against the prevailing culture and went on to play a significant role in the country's public life. In the late 1970s, the free-mar-

ket position was adopted by conservative Liberal party "dries," including the-then treasurer Mr. Howard. From 1983 to 1996, Labor Prime ministers Bob Hawke and Paul Keating floated the Aussie dollar, reduced import tariffs, and deregulated the financial system, as well as state-run industries such as aviation and telecommunications. From 1996 to 2007, Liberal prime minister John Howard—ably supported by his long-time treasurer Peter Costello—corrected Labor's debts and budget deficits, finished off the job of slaying inflation, pursued labor-market flexibility, improved waterfront productivity, privatized government businesses and implemented income- and business-tax reforms.

The results: 17 years of uninterrupted vigorous growth; record low unemployment of 4% in 2007; a less inflation-prone economy, lower interest rates, a wider choice of goods and services at lower prices, a strong and stable financial sector, and the weathering of the 1997-98 Asian financial crisis, the 2000-01 dotcom-inspired equities crash and the post-Sep. 11 meltdown. While the commodities upswing and China's demand for Australian raw materials from 2003 onwards also helped prolong the boom years, it was a testament to the dynamism of a modern, flexible economy that it was able to weather external shocks and keep growing.

Most of the credit for creating the miracle economy belonged to innovative managers and hard-working employees. But Canberra's leaders—on both sides of the political divide—helped create a new culture of competition and hard work that drove the nation to new heights by taking the politically brave step of pushing a reform agenda onto a skeptical electorate. During the past 30 years, public opinion polls and surveys have consistently showed that the Australian populace remained deeply uneasy, and even overwhelmingly

hostile, toward market reform, free trade and foreign investment. Still, from the interventionist mindset that delivered economic turmoil in the 1970s, Australia had moved to an era of sounder policy and more durable prosperity. Free markets and prudential financial regulation occupied the moral and policy high ground. Good policy really matters.

In this utterly changed economic and political environment, Mr. Rudd ran for prime minister on the Labor Party ticket with a campaign slogan of "economic conservatism." Mr. Rudd not only styled himself as an "economic conservative"; he also mimicked Mr. Howard on most public policy issues. Such tactics worked a treat. He convinced key segments of the socially conservative working and lower middle classes in marginal suburban and regional electorates to vote Labor again after their 12-year affair with the Coalition. Widespread embrace of the market consensus meant that the new center had moved to the right.

That was a mere two years ago, when the Australian economy was roaring and free of public debt. Unemployment was on the brink of breaking the 4% mark, and mutual fund managers were becoming celebrities. The world now is quite different; words like turmoil, crisis, hurricane and tsunami are freely thrown about. And the Labor leader who ran as Howard-lite now thinks the dire global financial circumstances have given his government license to remake the nation in a more interventionist image. In so doing, Mr. Rudd's new direction marks a strong contrast with not only the Howard-Costello era but also the Hawke-Keating years. It is a grave mistake.

In February, Mr. Rudd announced a giant A\$42 billion spending package on top of last October's A\$10 billion stimulus package. As a result, he has thrown the government back into deficit and debt to the forecast tunes of A\$57 billion and

A\$200 billion respectively. Add to this his government's plans to implement an emissions-trading scheme to limit the carbon pollution he says causes global warming, as well as its new laws to roll back labor market flexibility and boost trade union power in the name of a "fairer" workplace. The economic crisis will serve as a stepping stone to a radical shift in the relationship between people and their government.

What, then, is one to make of all this? There are several reasons to raise serious doubts about this new agenda. First, Mr. Rudd says free-market economic reforms "have not served Australia well in preparing for the current crisis." Never mind that the economy is better prepared to weather the global storm precisely because of those very economically conservative policies such as deregulation, economic liberalization and prudent regulatory oversight of the nation's financial institutions. Never mind, too, that Australia has had nearly a dozen years of budget surpluses and can now spend tax dollars to try to fuel a recovery from a strong position. Never mind that no Australian bank has suffered a run or subprime mortgage default in the past 15 months. Never mind that all of Australia's major commercial banks are highly profitable and in the top credit bracket of the world's banks. Never mind that there is no evidence of regulatory failure. In fact, the only financial institutions in trouble are those debenture funds that had to freeze redemption. Far from being the fault of any market fundamentalism, this was primarily due to the Rudd government's ill-considered decision in October to guarantee bank deposits at taxpayer expense.

Second, Mr. Rudd misunderstands the causes of the financial crisis. He downplays or ignores the argument that Australia's short-term problems came courtesy of inappropriate government interventions

overseas, as well as poor regulatory oversight of the U.S. financial sector and the bursting of asset-price bubbles in the U.S. Thus, he unfairly tars the Howard-Costello government with the flaws of the Federal Reserve and the Clinton and Bush administrations.

In fact, only one senior political figure in Australia read the national and global economic landscape and caught the significance of the aforementioned events: Peter Costello. On at least half a dozen occasions between the subprime mortgage collapse in September 2007 and the federal election two months later, the then-treasurer predicted that the subprime collapse would "create other problems around the world." In late October, he forecast a "huge tsunami would roll through the financial markets, as the subprime home lending debacle ran its course in the United States." Though the Australian economy was in good shape, it was imperative that our leaders held their nerve and did not panic. "At a difficult time like this," he declared in October, "it is important we keep our economic management strong, in experienced hands, and that we keep Australia's economy growing strongly."

This brings us to the third response to the Rudd thesis: serious doubts dog the Government's A\$42 billion stimulus package which passed in parliament in February. The jury is out on the extent to which the big spending agenda has protected the economy from the global downturn. But it seemed reasonable for the Liberal-National Opposition to question not only the size but the make-up of the government's package. Borrowing money from the public and then redistributing that wealth only digs Australia deeper into debt. And Canberra has borrowed so much already that if it adds too much more debt, or spends it poorly, it could precipitate a global crisis of confidence in Australia—leading to a run on the Aussie dollar—and encourage

tax increases in the future to pay for the spending spree.

If the problem wasn't the size of the Rudd government's fiscal stimulus, it was certainly its design. The package was badly composed, handing out lump sums of cash for special interests and Labor pet projects rather than instituting income tax cuts and spending on economic infrastructure. Of course, most economists agreed that some kind of fiscal stimulus might help the economy, and that running budget deficits may be appropriate in a recession. But the debate should have focused on the quality of stimulus. Is increased government spending on schools, homes and the automobile industry a more effective way of stimulating the economy than creating incentives for individual businesses and workers to create wealth?

In any case, Australia continues to weather the economic storm. So much so that in October the Reserve Bank of Australia raised interest rates to 3.25% from 3%, making Australia the first G20 nation to tighten monetary policy since the crisis began last September, and this month the RBA raised its benchmark interest rate to 3.5%. In the last quarter, 40,600 jobs were created and unemployment fell to 5.7% from 5.8%. The share market, meanwhile, is at 12-month highs and the local dollar is fast approaching parity with the greenback. Yet the Rudd administration refuses to contemplate winding back its large-scale budget stimulus more quickly than scheduled.

Mr. Rudd and Treasurer Wayne Swan maintain that Labor's big spending stimulated consumer spending and thus insulated Australia from the global contagion. Several economists point to China's rapid rebound from the crisis. But the primary reason for Australia's resilience has more to do with its starting point. Australia went into this global recession in an incredibly strong position. Unlike Britain and the U.S., Australia had a budget sur-

plus and no public debt. Unlike Britain and the U.S., Australian banks were well-regulated, well-capitalized and profitable. And unlike Britain and the U.S., unemployment was at a record low of 4%. All of this gave Australia considerable padding and insulation. It was a position of unique strength bequeathed to the incoming Labor government. This is why the RBA is now talking up the economy, even though the government is talking it down.

It is true that the Australian economy, hitched to a China-driven Asian growth engine that has decoupled from the recession-plagued U.S. and European economies, is being pumped up by mining and energy exports to the north. But if, as Messrs. Rudd and Swan say, the Labor government's fiscal stimulus package explains why Australia is immune to global contagion, why haven't similar big spending programs implemented by Messrs. Brown and Obama kept Britain and the U.S. out of recession?

In this climate, the onus is on bastions of free markets to defend unapologetically the economic reform record of the past three decades and remind skeptics that the nation became economically secure, not less, by exposing itself to competition. Without the so-called "neoliberal" reform agenda, Australians would have been poorer during this period, unemployment would have been higher, the fall in the Aussie dollar several years ago would have fed a vicious cycle of higher inflation, and we would have had much less to spend on social services such as health, education and roads. Free-marketers, meanwhile, should also unashamedly highlight the perils of Canberra's big government, pro-regulatory agenda as well as point out the merits in a more market-oriented policy approach of reducing disincentives to hard work and innovation.

More than 30 years ago, former Cali-

fornia governor Ronald Reagan met with then British opposition leader Margaret Thatcher for what was scheduled as a rudimentary 20-minute session between two right-of-center politicians from opposite sides of the Atlantic. The conversation instead lasted more than two hours and, as Mr. Reagan later put it, they immediately identified each other as "soul mates" in promoting the cause of "small government and economic freedom." Though Mr. Howard never met Mr. Reagan, he confided with the Iron Lady on several occasions since the 1970s. The rest is history.

Thirty years later Messrs. Obama, Brown and Rudd have recognized one another as soul mates, but the comradery is insincere, since at least in the case of Brown and Rudd, they conveniently supported opposite ideological positions during the previous decade. At any rate, their repudiation of the 30-year "neoliberal" experiment is fraught with danger.

Australia is weathering the global storm precisely because of the past few decades of economic reform. And yet Mr. Rudd, like Messrs. Obama and Brown, is effectively proposing that Australia alter the relationship between the federal government and private sector, a relationship that has been in place for nearly 30 years. Then the private sector led the economy; now Canberra will chart its course and, according to leading Labor economist Ross Garnaut, risk entrenching a damaging expansion of government regulation.

Of course, Mr. Rudd maintains that a market economy will prevail and in recent months he has lectured the world on the perils of unchecked spending programs and protectionist economic policies. Still, in the Rudd era it's becoming clear that the private sector is going to be demoted to a secondary role. This may not be socialism, but it is not the system that has produced Australia's miracle economy. ■



The Liberals' Voice In the Wilderness

by Mary Kissel



IN HIS LAST speech as Prime Minister of Australia, facing a crushing defeat, John Howard took the podium at the Wentworth Hotel in Sydney, endorsed his treasurer, Peter Costello, as the next Liberal Party leader, and said the party “will have a process of rebuilding to undertake.” That was an understatement.

Almost two years and two leaders on, one of the world’s greatest conservative parties finds itself adrift. Popular support for the Liberal-led coalition has merely marginally improved since the election to 48% from 47%, according to The Australian’s latest Newspoll. Current opposition leader Malcolm Turnbull, a hard-charging former lawyer and investment banker, trails Prime Minister Kevin Rudd by a whopping 44 percentage points—this in a country that usually splits fairly evenly between the two major parties. Australia’s famously left-leaning press is having a daily field day harpooning the hapless Libs. What went so wrong?

The first answer lies in the basic character of the electorate itself. Since the mid-

1970s, Australians have generally granted their prime ministers at least two three-year terms in office—a “fair go,” so to speak. The Liberals’ Malcolm Fraser had a little over a seven-year run; Labor’s Bob Hawke and Paul Keating had a combined 13 years at the helm. Mr. Howard himself had 11½ years to enact his conservative program, and was gunning for a fourth straight term in a bid to become the country’s longest-serving premier.

From that perspective, it’s no surprise that the Liberals are out of favor and publicly warring among themselves, while Labor is still wildly popular. After all, Mr. Rudd has only been in office two years, and the Liberals had a long run. This is the same situation Labor found itself in after Mr. Howard won the election in 1996: out of office and mired in internal bickering. Barring an unexpected, major Labor blow-up—which seems unlikely under the calculating Mr. Rudd—it will take awhile for the Liberals to win back voters.

That job is made harder by a much-de-

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pleted Liberal front bench. The party's major figures of the last two decades—Messrs. Howard and Costello, as well as former Foreign Minister Alexander Downer—have all left parliament. Mr. Howard lost his seat in the 2007 election; Mr. Downer resigned the next year; and Mr. Costello stepped down last month. Labor, by contrast, has a relatively experienced front bench—the polished Deputy Prime Minister Julia Gillard has been active in politics since the early 1980s—and a raft of attractive young leaders, such as Minister for Climate Change and Water Penny Wong, a 40-year-old who immigrated to Australia from Malaysia as a child and entered parliament in 2001.

Young Liberals, such as Melbourne's 32-year-old Kelly O'Dwyer, who is contesting Mr. Costello's seat, and 44-year-old Paul Fletcher, who is running for a safe liberal seat in Sydney, are starting to percolate up the ranks, but it will take time. The party has made inroads in some state races—with more likely to follow. But the Liberal Party is a broad church, and it still also houses a raft of outspoken federal backbenchers in safe seats, such as Wilson Tuckey from Western Australia, who are perennial public critics of the Liberal Party leadership but who will never rise to front-bench status. These people can only harm the Liberals' prospects, not spark a smart debate about its future.

Then there is the "Rudd factor." Mr. Rudd ran as a prudent fiscal manager in 2007, effectively expropriating the traditional Liberal Party base and the so-called "Howard battlers"—the country's non-unionized workers and entrepreneurs. Mr. Rudd's tack had a crushing effect on conservatives because his rhetoric was largely perceived to be true. He inherited a country with little federal debt, tight labor markets, an independent central bank and alert regulators. As Mr. Costello put it to me in August, "We [Liberals] fireproofed

the building and then this fire starts off and burns down the neighbors." Australia sailed right through the global financial crisis last year—the only major developed economy, in fact, that didn't experience a technical recession.

Mr. Rudd further boosted his party's popularity by spending money like water through fiscal "stimulus" programs—which he could afford because the Liberals had built up surpluses. Canberra gave cash handouts and tax break to pensioners, parents and first-time homeowners. Most Australians didn't feel the recession, even if their children will eventually have to pay off the debts incurred.

Mr. Rudd has also appealed to the country's social conservatives, again a traditional Liberal base. He attends church regularly and has been married to his wife for 27 years. The one shocker of his campaign was the revelation that he had once frequented a New York strip club; it was such a surprise that his popularity rose. He spoke out strongly when a Sydney art gallery last year displayed photographs of naked teenagers, calling it "revolting." He supported government intervention in Australia's aboriginal communities when allegations of child sex abuse surfaced.

This coalition of forces—the electoral cycle, the Liberal Party's weak front bench and Mr. Rudd's ability to hew to the middle, at least rhetorically—has made it hard for the Liberals to figure out how to go on the attack. Mr. Howard's immediate successor as leader of the Liberals, Brendan Nelson, a trained medical doctor, was particularly unsuited to the job. Unskilled in explaining economic matters, he mounted a feeble opposition to Labor's efforts to re-regulate labor markets and impose an economy-wide tax in the form of a cap-and-trade bill. He also spent a good amount of energy fending off internal challenges from an eager Mr. Turnbull, who took over in September last year.

Mr. Turnbull hasn't fared much better, not because his instincts are bad, but because the party's inner circle hasn't coalesced around him, which is probably due more to personal envy than to political principles. This shouldn't be the case; the Liberals don't have distinct factions, but rather "tendencies" to lean left or lean right, as the Sydney Institute's Gerard Henderson puts it. Mr. Howard was definitively from the right-leaning wing, as is Tony Abbott, the current shadow minister for families, housing, community services and indigenous affairs. On the other hand, Mr. Turnbull, who represents a posh Sydney suburb, is more socially liberal. But when it comes to economics, he's right on message with the rest of the party—and credible, given that he grew up in a single-family home and by dint of his own effort, won a Rhodes scholarship and eventually became one of the country's most successful lawyers.

Mr. Turnbull is trying hard to emphasize this aspect of his leadership. In a speech last month memorializing Australia's longest-serving prime minister and Liberal Party icon Robert Menzies, Mr. Turnbull reminded the audience that "political fortunes can change quickly," perhaps as an explanation for his own poor public approval ratings to date. He continued: "Menzies' political message of freedom, self-reliance and private enterprise was embraced as decisively in 1949 as it had been rejected in 1946 or even more crushingly in 1943. It is an important point for all of us to reflect upon."

Barring an unexpected, major Labor blowup, it will take awhile for the Liberals to win back voters.

The question now is whether this message will become politically viable as the consequences of Mr. Rudd's fiscal profligacy become evident. The first test is the Labor government's emissions-trading scheme, the debate over which felled Mr. Nelson's leadership. Mr. Turnbull, himself an environmentalist, doesn't oppose the idea on principle, but wants to ensure that its enactment doesn't overburden the economy.

It's a typical Turnbull technique: pragmatic, left-leaning, but still consistent with Liberal Party principles. It's also politically smart, given that Mr. Rudd has threatened to call a double-dissolution election if the Liberal-led coalition—which still holds a majority in the Senate—blocks the final legislation. If that happens, the Liberals would lose badly, given

the current poll numbers.

That makes the transitional period that Mr. Howard forecast back in 2007 especially dangerous for Australia's conservatives today. They have settled on a good leader, but house a fractured party; they have a strong base, but one that's been, at least temporarily, captured by their opponents; they are trying to appeal to a public that wants change, but not too much of it at once. The one advantage the Liberals seem to have retained is the courage of their convictions, so clearly enunciated by Menzies, by Mr. Howard, and now by Mr. Turnbull, who emphasized last month, "we place our faith in the energy, ingenuity and enterprise of our fellow Australians." For the Liberal Party, that's always been, and always will be, a very good bet. ■



Doing More With Less in Afghanistan

by Sarah Davison

CHINA, NOT INDIA, is winning the new "Great Game" in Afghanistan. Though India will have donated well over \$1 billion in aid by the end of next year to help destitute Afghanistan—the two share a common history of more than 500 years—it is China that is making the greatest political strides in the country and the region.

Instead of providing aid, China is emphasizing trade and foreign-direct investment. In April, China made the largest FDI in the history of Afghanistan when state-owned China Metallurgical Construction Corporation paid \$3.5 billion—more than double the expected amount—for the Aynak copper mine 30 miles south of Kabul in Taliban-controlled Logar province.

"Just as China's is a story of diplomatic and political success, India's has been a chronicle of dismal failure," says M.K. Bhadrakumar, a former Indian diplomat. He added that China is winning because it has remained relentlessly focused on its goals. India, meanwhile, is distracted by its ongoing hostility with Pakistan, thereby preventing closer ties with Kabul that

could work to Afghanistan's benefit.

The most compelling example is the Iran-Pakistan-India gas pipeline, which New Delhi shunned despite a desperate shortage of energy or oil equivalent. This major project could have helped alleviate India's power crunch and stabilize regional relations. Running directly through Afghanistan, this major project would have generated thousands of jobs for poor Afghans while promoting badly needed technical capacity. But India was concerned about a possible dependence upon a gas line running through Pakistani territory.

This is where China is leaping ahead; while New Delhi views Afghanistan as a forum in which to play out its dispute with Islamabad, Beijing sees it as a supplier of oil, gas and mineral wealth and a future trading partner.

Thus, China's regional strategy, particularly toward resource extraction, appears more consistent, coherent and pragmatic. This, combined with a muscular financial arsenal, creates regional confidence.

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As emerging superpowers, both India and China inevitably find themselves competing for access to regional resources, especially energy. China imports 50% of its energy while India imports 70%. Both China and India have learned, however, that intense competition for resources drives up prices, so they are now trying to bid jointly, or cooperatively, on the most promising energy targets.

But Afghanistan offers some illuminating examples of how China's more pragmatic approach works to its advantage. India has spent a whopping \$1.2 billion in aid to Afghanistan since 2002, while China has donated a mere \$175 million.

It is the type of projects funded, and not just the scale of the programs, that hints at very different national agendas. However, with more than 11 million tons of copper, Aynak is the second largest copper deposit in the world. In addition to an expected 8,000 direct jobs, China has promised to provide a 400 megawatt power plant, an onsite copper smelter, a railroad up to Tajikistan, and substantial investment in schools, houses and health clinics.

The investment is typical of the way China is approaching regional development, both in Central Asia and in Africa; it is using jobs and economic development to promote stability, while also meeting its own growing need for natural resources. Chinese diplomatic sources in Kabul say the investment is evidence of China's conviction that Afghanistan, while currently troubled, has the potential to stabilize. China is also interested, they say, in supporting neighbors who are having difficulties, in the hope that this support will translate into the stability that allows future trade of mutual benefit.

China's major investments are directed toward projects that spur local economic development.

"You have to see this in the context of China's great western development program, which has led to major investment into the western provinces (of China) and, of course, also cross border connections to Central Asia, South Asia, and Iran," Niklas Norling, a China and Central Asia expert at Stockholm's Institute for Security and Development told Eurasianet.org, the pro-democracy organization funded by billionaire George Soros.

Mr. Norling says the Karakorum highway in Pakistan, the Gwadar port near Karachi, the gas pipeline from Turkmenistan to Xinjiang, and a \$100 million 25-year energy contract with Iran are other examples of this approach.

But it is India that built the transmission lines that brought 24/7 power to Kabul, ending constant power outlets and heavy dependence upon diesel generators. Now, power is shipped directly from Uzbekistan thanks to an expensive and difficult new transmission line constructed over the Salang Range at heights of more than 4,000 meters.

This project is hugely popular in Afghanistan. Until April this year, the country had only an estimated total of 800 MW of generating capacity, obviating any significant industrial development in the country while presenting a challenge to ordinary Afghans needing heat, lights and power. Demand is well in excess of 1,000 MW.

India also is funding a series of small community-based aid projects, the majority of them concentrated around the volatile northern Afghan-Pakistan border. And it is investing heavily in health and food-aid programs that provide services far superior to those available to its own citizens in India.

These efforts have done nothing to ease

India's presence in Afghanistan, though. On October 8, a huge suicide car bomb exploded outside the Indian embassy—the second time the embassy had been struck in just over a year.

Blamed on the Al Qaeda-linked Haqqini faction, the two bombs have killed well over 150 people and wounded hundreds more. They are considered a reaction to India's escalating profile in Afghanistan, a country Pakistan considers its own backyard.

While India pursues a high diplomatic profile with a large embassy downtown and four consulates across the country, China has taken the opposite tack. Its embassy is small, skeleton-staffed and hidden behind a red gate that rarely opens. Its aid profile is similarly low key. Moreover, China has spent much less on aid over the past six years, and none of it appears motivated by a desire to establish political influence. The largest project is the \$25 million, 350-bed Republic Hospital in Kabul which was inaugurated in August and is now the best-equipped hospital in the country. Instead, China's major investments are directed toward projects that yield an obvious, and direct, return for Beijing while also spurring local economic development.

There is some evidence that Indian companies are about to give China a run for its money. Some substantial new deposits are being discovered in Afghanistan, including two more copper deposits, some copper-gold deposits, and the 1.8 billion-ton Hajigak iron deposit 80 miles west of Kabul, which is currently up for bid.

Five Indian companies are competing with one state-owned Chinese company for the site, which is close to a coking plant and could become the pillar on which to build an Afghan steel industry. Kabul is demanding a steel plant, a rail link, and a fertilizer factory as well—projects that will again act as a jobs force multiplier.

Afghan sources say the Chinese are now looked upon favorably for the bid because of the Aynak mine deal. The scale of these projects and the jobs they bring with them inevitably increase the profile of the nation involved, especially in a country playing host to more than 100,000 Western troops. Indeed, how China and India will fare in their relations with Afghanistan will be decided partly by political events now playing out on the ground there, but China seems to be getting a higher return on investment thus far. ■



REVIEWS



**THE NEXT ASIA:
OPPORTUNITIES AND CHALLENGES
FOR A NEW GLOBALIZATION**

by Stephen Roach

John Wiley & Sons, 414 pages, \$39.95

Reviewed by RICK CAREW

MACROECONOMISTS STAKE THEIR reputation on calling the market correctly. By that metric, Morgan Stanley economist Stephen Roach's long-held bearish view on the United States and bullish view on China have been vindicated by the recent financial crisis and its aftermath.

Mr. Roach's views on the U.S. economy stems from his view that American consumers overextended themselves, lured by the combination of cheap goods from Asia and easy credit. He frequently cites the dramatic fall in the U.S. savings rate and rise in the trade deficit as a major danger. Mr. Roach has been one of the strongest critics of the Federal Reserve and its easy money policies that fueled the housing boom, and he warned earlier than most of the dire consequences of a deflating housing bubble.

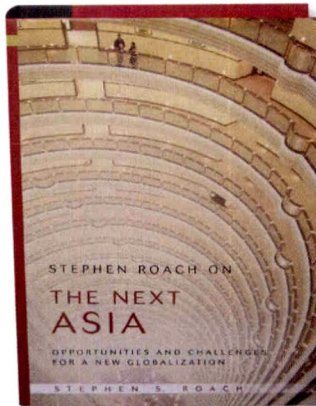
Moreover, Mr. Roach never subscribed to the notion that global imbalances could be sustained. While Washington policy makers were saying the fallout from the

collapse of the subprime housing market was contained after 2007's meltdown, Mr. Roach thought things would get worse. He was right, though even he couldn't predict the depth of the crisis that unfolded and nearly brought down Wall Street.

The collection of essays by Mr. Roach in *The Next Asia* are mostly reprinted from his writings since becoming Morgan Stanley's Asia chairman in September 2007 after years as the firm's chief economist in New York. The title is a misnomer as the book's focus is on the U.S.-China relationship. That's not necessarily a downside for readers since the two countries dominate Asia's macroeconomic outlook.

Taking the Asia chairman job at Morgan Stanley and moving to Hong Kong certainly adds to the subtleties of Mr. Roach's views of the region. It's difficult to think of another economist of his clout who has been willing to vote with his feet on the shift underway in the global economic order.

But Mr. Roach's journey toward understanding the roles of China and Asia in this shift started much earlier. He began seriously studying Asian economies during the financial crisis of 1997-98. At the time, Mr. Roach took the bold view that China would anchor the region and pull it out of the crisis. He saw a Chinese government committed to being a stabilizing force in the crisis and believed they would deliver, which they did. The Chinese government maintained the stability of its currency as its neighbors caved and



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devaluated their own currencies.

After reading one of Mr. Roach's first commentaries laying out his support for Beijing's policies, China's then Finance Minister Xiang Huaicheng asked to meet the American economist. The two held a lively discussion on China's response to the Asian Financial Crisis over a boat-trip in Seattle, when Mr. Xiang was visiting Boeing. Mr. Roach became hooked on China and began making more visits at the behest of Mr. Xiang and Morgan Stanley's then-China economist Andy Xie. He grew into the role of a trusted outside adviser for Beijing's government leadership and a frequent traveler within China to see clients on behalf of his firm.

As a result, the book focuses mostly on the U.S.-China relationship, and it's hard to fault Mr. Roach for sticking to the countries he knows best. He argues that China needs to rebalance its economy away from the investment and export-led growth model that worked in the last boom and toward domestic consumption. That is Mr. Roach's key call for Asia's future. At times he strikes an overly optimistic note on the ability of Asia to deliver this quickly, especially in the case of China. At other points he correctly notes the disconnect between local and national policy makers in China that prevents such a rebalancing.

He also delves into the debate on globalization and intraregional trade ties. He's right that increased global trade in services, a key component of globalization, has threatened the middle-class in developed economies and created new tension in efforts to liberalize trade flows. He's somewhat too pessimistic that anti-China sentiment in the U.S. would lead to a trade standoff (which he happily admits is too pessimistic). Still, the tension is there.

Moreover, he lays out his own job description as an economist; "identifying a set of forces or tensions that depict key transitional adjustments for economies in

disequilibrium." On that count, he scores quite well.

Mr. Roach will continue to stoke debate and make bold calls. In a recent article in the Financial Times, he made the case against confirming Ben Bernanke for a second term as Fed chairman, an argument that certainly goes against Morgan Stanley's business interests; the firm is advising the Federal Reserve on issues related to AIG, a role that has proven lucrative for the investment bank.

Mr. Roach's willingness to speak both honestly and thoughtfully means there should be ample room to listen to his views and take them seriously. While no forecaster will ever time every call right, Mr. Roach has consistently been in the ballpark on the big calls and deserves a hearing from any investor who is serious about putting their money in the U.S. or China.

**WINNING THE LONG WAR:
RETAKING THE OFFENSIVE
AGAINST RADICAL ISLAM**

by Ilan Berman

*Roman & Littlefield Publishers,
125 pages, \$29.95*

Reviewed by THANASSIS CAMBANIS

WHEN YOU HAVE a hammer, every problem starts to look like a nail. So the saying goes, and it explains a lot about America's approach to the series of conflicts through which it has lurched in a strategic zigzag during the last decade. This struggle appears neat and unified only in the name that some of its advocates have given it: The Long War.

Mr. Cambanis writes about the Middle East and teaches at Columbia University's School of International and Public Affairs. His book about Hezbollah will be published in 2010 by Free Press.

That sobriquet has replaced Donald Rumsfeld's now unfashionable term, "Global War on Terror." The shift speaks to the lack of philosophical coherence that still plagues America's response to the 9/11 attacks. To paraphrase the old cliché, to a triumphant superpower every problem starts to look like it has a neat solution. In reality, of course, most policy conundrums have no pat answer, only a least-bad response—especially the Middle East, where only unpalatable alternatives are available to the foreign power confronting its tangled web of interstate hostility, intrastate insurgency, religious extremism and nihilistic violence.

All too often the debate in the U.S. has raged between two simplistic poles. On one side, people believe that through force, war and sanctions, regimes will adopt the "freedom agenda." On the other side are those arguing that the U.S. can have little effect in lawless climes of the world, especially not by moralizing and military means. This false dichotomy obscures the complex question of how America ought to deploy its resources in a world that hosts a contingent of souls bent on its destruction. This is a quest best embarked upon with a healthy dose of idealism and realism both.

Happily, Ilan Berman makes a start at addressing this question in a manner that transcends some of the misleading divides of right and left, hawk and dove. Instead he goes straight to the philosophical nub of the problem. Mr. Berman, a scholar at the American Foreign Policy Council, a conservative think tank, believes that ideology is a key motivator of many of the violent groups in the Islamic world. At least one component of America's response, he

argues convincingly, must be ideological as well.

U.S. policy makers lapsed into complacency after the Berlin Wall came down, Mr. Berman writes. In pursuit of a peace dividend, President George H.W. Bush followed by President Bill Clinton withdrew from the most confounding conflicts and dismantled much of the infrastructure that Mr. Berman claims helped end the Cold War: propaganda tools such as the United States Information Agency and

the Voice of America, along with a brain-trust of hard-headed diplomats who understood the ideological dimension of America's struggle against the Soviet Union.

In his effort to place ideas at the center of a

historical narrative, Mr. Berman overestimates the role that ideas played in ending the Cold War, and he certainly ignores the efforts of many foreign affairs policy makers in the Clinton administration to harness the global moment of goodwill to create a new world order that would serve America's liberal-democratic-capitalist agenda. When turning his attention to the post-9/11 era, however, he throws darts at Democrats and Republicans alike.

President George W. Bush drafted an ambitious agenda to spread freedom, Mr. Berman writes, but never allocated adequate resources to match his rhetoric. The Bush administration had the right idea about engaging in a war of ideas with Islamists, but never figured out how to take the first step. Mr. Berman scathingly mocks the early efforts to "brand America" and the half-hearted mediocrity of the Arabic-language satellite television and radio networks launched by the U.S. government.

When it came to ideology, Washington

It's unfortunate that Mr. Berman chooses to conceptualize the struggle as a war rather than a marketplace of ideas.

flailed, wielding against like-minded but vastly different opponents the same bludgeon of “You’re with us or you’re against us.” Mr. Berman believes that the U.S. cannot abandon the realm of ideas to religious extremists who share little or none of America’s political values: individual rights, civil liberties, political democracy and liberal markets. It’s unfortunate that he chooses to conceptualize this struggle as a war rather than a marketplace of ideas, as if the U.S. could somehow demolish Islamist thinking if only it deployed its own cutting-edge ideas like a new weapons system.

The fundamental point, however, is crucial and can not be made often enough (and outside of the confines of the far-right and the far-left, few make the point at all): America must spend time and money articulating its vision and values, giving aid and comfort to those who sympathize with Western ideals, while striving to convince those who don’t. And it must do so cognizant of the frustrating fact that groups such as the Iranian dissidents confronting President Mahmoud Ahmadinejad desperately desire a discernible distance from America, lest they be branded traitors; U.S. support for Islamic moderates is often seen as the kiss of death.

Ideas, of course, won’t solve everything. Some of the most driven Islamists have no difficulty reconciling pro- and anti-American positions. Last fall, a Hezbollah operative with a thick beard and hands as wide as baseball mitts accosted me at a celebration in Beirut that I was covering, where the Islamist party feted those who had died in its struggle against Israel and thanked Iran for its patronage. Hezbollah, he told me, would always triumph because

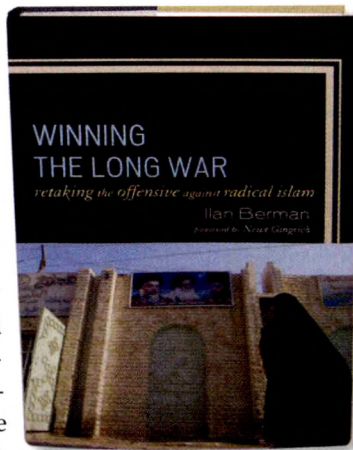
its devotees would stop at nothing, including death, to achieve the Party of God’s goals. I asked him why he spoke perfect English. “I live in the United States,” he answered. “I’m a citizen. I just voted for Obama. He’s a great man.”

When it comes to the actual solutions proposed, Mr. Berman’s argument gets thornier. He makes a valiant effort to draft a blueprint that eschews the bugbears of the right and left, taking into account practical limitations like tight budgets and the

lamentable fact that only the U.S. Defense Department seems to have the wherewithal to conduct effective foreign policy. Unfortunately, there’s little scholarship that establishes the impact of “information operations” and other attempts to shape public opinion and mass ideology, which Mr. Berman advocates as central tactics in the ideological struggle.

Mr. Berman also never presents a compelling case for what the U.S. could achieve if it spent more money on ideological transmission; perhaps people around the world already know what the U.S. stands for, and either like it or don’t on its merits. In other words, maybe it’s the message that matters, not the messenger, and world reaction will fluctuate in response to the actual policies articulated by Washington.

Mr. Berman’s best proposal, and one on which he spends far too little time, is that the U.S. should invest abroad in education, hospitals and social service institutions that would “force terrorist groups to do something they currently do not have to: compete in the social ‘marketplace,’ and pit their ideas and dollars against those of the United States.” That same



approach has expanded the influence of Iran and Saudi Arabia across the Islamic world; it is about time America adopted the model.

Other suggestions are less well thought-out. Mr. Berman defends the Bush administration's use of torture against "illegal combatants" even as he acknowledges that the U.S. wins more credibility when it applies the Geneva Conventions. He believes the threat of sanctions and economic isolation could change Iran's behavior but proposes no realistic way of convincing American allies to forgo billions of dollars of business with the ayatollahs. He argues that promoting democracy at the expense of more critical interests such as energy and security is counterproductive but offers no blueprint for when it makes sense to tout democracy at all.

So long as the U.S. fails to invest serious money and some of its best minds in making the case for what's right about the U.S. to its Islamist enemies, Washington's efforts will fall short, Mr. Berman claims. Americans disagree about many things, but a moderate consensus shares a common view of America's core values: individual liberty, political freedom, economic opportunity, impartial justice. For too long, the U.S. has forsworn the public sphere in most of the Islamic world, retiring from the cacophonous debates on Al Jazeera and from the airwaves of places such as Gaza and Pakistan; the debate has been shaped instead by demagogues who advance a false view of their own fight and of the American enemy.

Even if his prescriptions aren't all on target, Mr. Berman provides a compelling argument that it is time for the U.S. to enter the debate, not with a megaphone but with a steady voice, and back its ideas with money and sustained commitment. Who knows? People just might listen.

**THE EAST, THE WEST, AND SEX:
A HISTORY OF EROTIC ENCOUNTERS**

by Richard Bernstein
Knopf, 336 pages, \$27.95

Reviewed by PETER NEVILLE-HADLEY

MAKING OBSERVATIONS ON the West's fascination with the "otherness" of the East has become something of an industry. So a title such as *The East, the West, and Sex: A History of Erotic Encounters* ought to entice readers like the come-on of a tart in the massage parlor doorway. Unfortunately, and as is often the case with tarts, the book delivers much less than promised once the price is paid. Despite its claims to be "a history," this is a volume light on scholarly apparatus, closely reasoned argument or sense of direction. Instead it consists largely of commentary on the travel narratives, letters, conversations and blogs of a handful of carefully selected Western libertines, interspersed with anecdotes of individual modern East-West relationships and material only tenuously connected to the book's thesis.

The book is far from the well-written, racy, first-hand account of the pleasures of a libidinous East some readers may be hoping for. When discussing sexual practice, Mr. Bernstein's manner is sometimes downright Victorian, and his narrowness of view suggests he needs to get out more. As bedtime reading, the book is more soporific than aphrodisiac.

The main thesis is that "for centuries the East ... represented a domain of special erotic fulfillment for Western men," whose benefits "flowed largely in one direction." Of its many problems, one is that maintaining this position requires contortions that would make the authors of the

∞ Mr. Neville-Hadley is the author of several travel books on China.

Kama Sutra blush.

Problems begin with Mr. Bernstein's definition of the East, which includes not only the Near and Middle East, but also parts of what anyone else would call the Southeast. Moreover, though Mr. Bernstein uses the past tense to frame his thesis, much of his material comes from the present day. He opens with a discussion of the antics of one particular Shanghai-based lothario who recently published details of his serial and simultaneous womanizing on a blog.

Mr. Bernstein describes this as an "especially vulgar expression of an attitude that has been peculiar to Western men in Asia for centuries," though he immediately accepts that many Western men who find the opportunity also exhibit the same behavior elsewhere, including at home, and neglects to note that of course Asian men, and men in general, are often the same.

In search of some evidence of the "special" nature of the East-West relationship, the author suggests rather primly that it lies in the frank language of the blogger's notes to his lovers, though the language is both unmemorable and unexceptional. Rarely able to thrust an argument home, he suggests that the blogger's experience of finding a stream of casual lovers would in fact be uncommon. Yet his thesis rather requires this penetration of the East by the West to be commonplace. The only difference between this particular expat and many another is merely that he blogged his way into notoriety. Mr. Bernstein needs to spend more time in expat-haunted bars, and he may find the same results from Cape Town to Rio de Janeiro.

The claim that the benefits of this supposedly special sexual relationship have

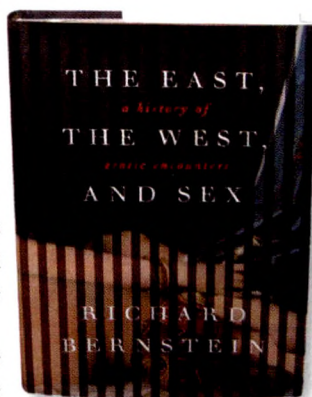
always "flowed largely in one direction" is particularly odd given that on adjacent pages, Mr. Bernstein himself draws up a list of the perceived benefits of relationships with Western men, using interviews with Chinese and Taiwanese women. Now, as in the past, these women are consenting and often eager, and those Asian men offering the same benefits—broader cultural outlook, deeper pockets, better hygiene, opportunities for travel, higher standard of living—have much the same opportunity to take multiple youthful consorts. It's a global phenomenon, recognized by all, that the man riding in the back of the Mercedes-

Benz is more attractive than the one with the Mini.

Mr. Bernstein is given to sweeping and overwrought generalizations likely to infuriate readers of all races: "The sexual advantage of the Western man in the East is an aspect of Western dynamism, the questing spirit of the Europeans, compared with the relative passivity of Asians in these matters."

Some of these generalizations are also irritatingly pious, such as his claim, "Wisdom, of course, teaches that the greatest sexual pleasure for a man comes in a healthy monogamous and loving relationship with one woman."

There's a whiff here of the pulpit and of the same sense of superiority for which Mr. Bernstein criticizes Western expats past and present, since clearly he sees the East as harem-ridden and its people therefore less wise. And it almost seems that he hasn't been reading his own book, much of which contains observations supporting entirely the opposite conclusion; the big thrills for men everywhere come from having a bit on the side, particularly if the partner is youthful and compliant. Perhaps this virtuous pose stems less from religion



than from the fact that Mr. Bernstein used his wife as a proof-reader.

"Colonialism," he writes, "has always produced sexual opportunities for the colonizers, or at least it is difficult to find an instance when prostitution and concubinage didn't ensue from the conquest of an Eastern country by a Western one." Mr. Bernstein needs to produce examples of countries where prostitution was not already in place before colonization, and to explain, for instance, that the 13th-century Mongol invasion of Europe did not produce the same results.

A simple statement that there are more sexual opportunities for Westerners in Asia than at home is far from interesting, and given the permissive attitudes of parts of Europe, its truth depends to some extent on where you regard as home and the historical period chosen. A little perusal of the classifieds today, whether in print or online, is all it takes to discover that the difference in commercial sex offerings may merely be in quantity, not quality.

The evolutionary drive to reproduce is either not religious enough or too broadly applicable, and therefore not mentioned. But the most obvious reason as to why travelers "engage in sin" as Mr. Bernstein puts it, is eventually recognized: because it's always easier to do so "far from the prying eyes of people who know you."

This is as true of many of the Japanese female students who flocked to third-rate language schools in the United Kingdom and North America as it ever was to the 19th century male colonial administrators of Europe's Asian territories. There are several reasons why so many overseas inspection trips by Chinese government officials pass through Nevada; it's not all about the gambling.

In the end, Mr. Bernstein spends so much time fumbling with the buttons and zips of his arguments that the reader loses all desire to go on.

**WHALING IN JAPAN:
POWER, POLITICS AND DIPLOMACY**

by Jun Morikawa
Columbia University Press,
170 pages, \$45

Reviewed by MARTIN LAFLAMME

IN SIX CONCISE chapters, Jun Morikawa, a professor of international relations at Rakuno Gakuen University in Sapporo, provides a short, yet detailed overview of the economic, bureaucratic and political forces which have contributed to shaping the position of the Japanese government on whaling over the last half-century. His views are made clear from the onset: The Japanese government is misguided to invest so much effort and resources trying to defend a policy which is wrong in the eyes of much of the developed world and has brought few benefits to Japan. For the world's second biggest economy, he says, "whaling is neither a major economic issue nor a matter of vital national importance."

This conclusion is borne out by an overview of the history of whaling in Japan, one of the most interesting parts of the book. Defenders of this practice often claim that the ocean mammals have been hunted in Japanese waters for hundreds of years, and that this long tradition must thus be preserved. The truth is a little different. During the Edo period (1603-1868), when an official policy of seclusion was in force and few vessels were able or allowed to stray far from the coast, whaling did exist, but it "was small in scale and confined in area" and "its economic, social, and cultural impact was weak."

It is only toward the end of the 19th century that a whaling industry began to devel-

Mr. Laflamme is a Canadian foreign service officer who served in Japan and Afghanistan. The views presented here are his own.

op rapidly. Even so, a few local communities opposed the establishment of whaling centers along the coast. Some complained that the blood and oil runoffs released in the ocean were endangering fishing grounds. Others resented the killing of whales, which they treated as divinities.

It's true, Mr. Morikawa explains, that a "whale eating culture" developed over the centuries in some parts of Japan. This includes Taiji, a city in Wakayama prefecture which has been sitting uncomfortably in the limelight since the release of *The Cove*, a film documenting how the city's fishermen kill thousands of dolphins every year. With due respect for the beliefs of fisheries officials, however, whale eating is not a custom which spread far beyond a few coastal towns. Little if any whale meat was eaten inland, and even on the coast its consumption was seasonal. For most of Japan's history, whale was never more than a marginal source of food.

The only moment on record when whale meat was consumed on a wide scale was in the immediate aftermath of World War II, when food was scarce and sources of protein even more so. To address the problem, the Japanese government, with the support of U.S. authorities, actively encouraged the expansion of the whaling industry. A program of "stable, daily, long-term use of large quantities of whale meat in all elementary and middle school lunches across Japan" was also instituted to address the nutritional needs of school children. Together, these policies led Japan to become the biggest whaling nation in the world by 1958.

But this situation did not persist for long. By the early 1960s, the Japanese

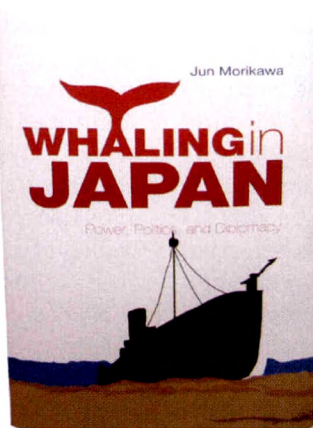
economy was expanding quickly and the production of staple foods had recovered and diversified. Demand for other types of meat, such as pork, chicken or beef, was growing rapidly, while demand for whale meat started to decline, despite the fact that it was less than one-third the price of beef. It never recovered.

Nowadays, whale meat is not difficult to find in Japan, but it does not appear to be particularly prized, especially among young Japanese. At *kaiten zushi* restaurants, where plates of sushi move in front of customers on a conveyor belt, the rare pieces of *kujira*, "whale" in Japanese, always seem to remain untouched the longest, appearing a little bit drier each time they come around. Such anecdotal evidence is backed by data; Mr. Morikawa also cites a recent survey by the *Asahi Shimbun*, one of Japan's biggest dailies, which reported that 58% of women in their 20s,

and 41% of those in their 30s, do not want to eat whale. This is partly why supply has often exceeded demand in recent years; by the end of August 2005, for example, 4,800 tons of whale meat sat in warehouses.

There is no significant whaling tradition in Japan that goes back hundreds of years, nor are there any widespread whale-eating habits; overall demand is low and few youngsters care to eat it at all. Yet Tokyo allowed the issue to become a matter of "national pride," thereby giving it "a magnitude and significance far beyond its actual importance."

For this, Mr. Morikawa blames a coalition of petty bureaucrats, politicians and businessmen who joined forces to prevent the disappearance of the industry. In the process, officials at the Japan Fisheries Agency were able to protect their turf and



budgets. Local politicians with a demagogic bent could cast themselves as proud defenders of a Japanese tradition. Parts of the whaling industry were able to stay in business at a time when whales were vanishing fast and demand at home was disappearing equally quickly. Add a population with a negligible interest in this issue and the general opacity of the policy-making process in Nagatacho, and one starts to understand why Japanese whalers still ply the southern seas and others hope to grow the industry.

After reading *Whaling in Japan*, it is hard to feel any kind of sympathy for those hoping to further expand commercial whaling. Mr. Morikawa's account, however, would have been even more persuasive had he framed it more tightly in the context of diminishing marine resources. Not that he denies the latter, but he could have provided a few more statistics to strengthen his case. For example, he presents hard data on the number of whales caught by Japan "for scientific purposes" (it more than trebled over the last two decades, reaching 912 in 2007-08). He also compares Japan's catches with that of other whaling nations such as Norway and Iceland (the archipelago is responsible for more than 90% of the total). But he does not explain how populations of whales have evolved over the same period of time.

Granted, reliable numbers can be hard to come by. Some statistics are old, others incomplete. Nevertheless, readers are left wondering how damaging it is for the whale population to kill a thousand heads, and finding the answer to this question requires a bit of supplementary research. (The answer is, it depends on the species.) This is the key weakness of Mr. Morikawa's book, but it takes nothing away from his conclusion—that Japan's approach to whaling is "outdated."

**BEYOND DEMOCRACY IN CAMBODIA:
POLITICAL RECONSTRUCTION IN A
POST-CONFLICT SOCIETY**

*Edited by Joakim Ojendal and
Mona Lilja*

*University of Hawaii Press, 320 Pages,
\$37*

Reviewed by GEOFFREY CAIN

IN 1992, the United Nation's most expensive peacekeeping operation at the time, the U.N. Transitional Authority on Cambodia, landed in the capital of Phnom Penh, intervening between four warring factions and administering the country's first election in 1993. The royalist party Funcinpec overwhelmingly defeated the Cambodian People's Party, which had been installed under the Vietnamese occupation of the 1980s. Yet the CPP refused to relinquish power, agreeing instead to a system whereby the two parties could rule with two co-prime ministers.

The U.N.'s effort for democracy went unfinished, and the peacekeepers left in 1993. Yet many scholars were quick to call UNTAC the first successful intervention in establishing democracy after the Cold War. The new government seemed stable at first, but co-prime ministers Hun Sen and Prince Norodom Ranariddh soon became ensnarled in a power struggle, ending in 1997 when Hun Sen launched a coup d'état against the royalists. The CPP subsequently established absolute control over the military, police and civil service.

For scholars, the question of Cambodia's path to democracy was no longer clear. Despite the CPP's failures to reign in the country's rampant corruption, deforestation and land evictions, the party nonetheless won three successive elec-

∞ *Mr. Cain is a free-lance journalist based in Seoul.*

tions by retaining popularity in the countryside. *Beyond Democracy in Cambodia* is one of the first anthologies to argue that Cambodia was actually never on a clear path to “democracy” in the Western sense, but instead had a hobbled, hybrid form of democracy and dictatorship to cope with the devastation that followed two decades of conflict. It’s a fresh angle to a repetitive debate, yet the editors note that they don’t intend to raise these points as an argument, but rather as new questions contributing to an ongoing debate.

In the introduction, the editors call the international community’s rush to launch a “big bang” of democracy in Cambodia shortsighted, and maintain that it possibly even hindered the development of democracy. The government—already fragile from two decades of civil war—was thrown into an awkward position, with leaders distrustful of their former wartime opponents. After all, under the genocidal Khmer Rouge regime from 1975-79 and during the ensuing civil war in the 1980s, trusting people meant death. Under the post-UNTAC system, Cambodian leaders are walking a tightrope today as they struggle to project a democratic image to donors while maintaining their own secretive patronage networks, the editors write.

This book stands apart from much of the previous literature, because the essayists construct their arguments based on years of field research rather than on economic number crunching in the security of their offices. This makes the book a departure from the dreary reports written by the World Bank and U.N. Development Program in Phnom Penh, designed more to maintain friendly relations with the government than to document its re-

peated failures to implement reform, despite receiving millions of dollars in donor aid every year.

The first three chapters paint a disturbing picture of Cambodia’s political structures, which require civil servants to give monetary kickbacks to higher-ranking officers, a practice which the government has hidden from donors. In one of the most thought-provoking chapters, Kheang Un, a professor at Northern Illinois University, argues that the Hun Sen regime keeps courts underfunded and weak so they won’t interfere with the

The Hun Sen regime keeps courts underfunded and weak so they won’t interfere with the government’s patronage systems.

government’s patronage systems. Because of their low salaries and interference from the executive branch, “corruption is a practice that judges must, to varying degrees, be involved with in order to get to and continue

to stay on the bench,” he writes. Yet the government has tried to conceal this corruption from foreign donors by occasionally arresting corrupt judges, making the judicial system a scapegoat.

The book segues into four middle chapters that focus on female involvement in politics, religion and the politics of donor aid. Some of these chapters, like John Marston’s essay on Cambodian religion since 1989, do little to support the book’s overarching argument, providing the reader instead with a laundry list of successes by Cambodian monks throughout the 1990s. In the fifth chapter, Mona Lilja, a researcher on development, develops a vague argument that Western NGOs are teaching Cambodian women to be more active in politics. But her generalizations about women are overly theoretical and lack supporting citations. For instance, she claims, “This [Western ideas about women] is used by women politicians,

who draw on 'Western' discourses about the caring politician to increase their legitimacy."

The chapter by Sophal Ear, a Cambodian-American policy professor at the U.S. Naval Postgraduate Institute, is the most compelling. He notes that since UNTAC ended, "while the overall macro-economic picture appears healthy with moderate growth of around 7% per year, there are troubling signs of sagging human development, rising inequality and corruption." He writes that annual donor meetings have become a ritual where donors scold the government on its 15-year delay to pass an anticorruption law, but then give the regime more aid money to maintain good relations.

In one of the final chapters, Laura McGrew, a former NGO employee in Cambodia, writes an extremely well-documented essay arguing that the Khmer Rouge tribunal, which began its first trial in April, "could result in greater stability and enhanced legitimacy for the Royal Government of Cambodia." But she notes that the court was the victim of political quarreling in the 1980s by the U.S. and China, both of whom refused to recognize the Khmer Rouge's crimes against humanity given their own alliances against Vietnam. Additionally, corruption scandals have occurred within the Cambodian side of the tribunal. All this could damage the government's desire to be viewed as legitimate by donors. Such pungent accounts direct from the field make *Beyond Democracy* a refreshing contribution to a tired topic.

**FRIENDS AND ENEMIES: THE PAST,
PRESENT AND FUTURE OF THE
COMMUNIST PARTY OF CHINA**

by Kerry Brown

Anthem Press, 196 pages, \$24.95

Reviewed by TATIANA LAU

THE CHINESE COMMUNIST Party has managed to convince the world that its future is inexorably intertwined with China's, and perhaps it is. Thus, it behooves the world to attempt to understand this opaque governing institution, Kerry Brown writes in *Friends and Enemies*. "Like it or not, the CCP's success or failure, and its future plans, impact us all now," he argues in the preface.

In the past, efforts on the part of the West to cultivate relationships with Chinese leaders have fallen short because they failed to consider the CCP's history, which is the key to understanding how the Party has kept its grip on power. But fully appreciating that history requires poring through tomes dense with the names of the Party's founding fathers.

Take *The Founding of the Republic*, a recently released propaganda movie detailing how Mao Zedong and the CCP rose to power. The film has enough characters to leave the minds of the uninitiated spinning; on average a new name flashes on the screen every three minutes. And the movie, which runs over two hours long, only covers 10 years of history. At that rate, only dedicated Sinologists would be able to write a persuasive analysis of China's attitude toward the outside world.

Fortunately, Mr. Brown, a senior fellow at Chatham House, has written the layman's guide to understanding CCP history. In *Friends and Enemies*, Mr. Brown has vividly captured the founding and founda-

Ms. Lau is a Princeton-in-Asia fellow at the REVIEW.

tion of Mao's party without complicating things unnecessarily.

"I don't pretend ... to offer anything but a hopefully accessible narrative of how the CCP was formed, how it came to power, and how it has conducted itself while in government," Mr. Brown states. Indeed, this short book will not present new information to anyone who has undertaken even a cursory study of 20th century Chinese history.

Moreover, the book doesn't advocate any particular policy strategy for the West, nor does it deliberately present individuals involved in the rise of the Party in a particularly positive or negative light. The furthest Mr. Brown ventures in voicing his own opinion is near the end when he hazards a few predictions of how the CCP will survive its next few years and how it will evolve to match the growing demands of the Chinese population.

Mr. Brown begins with a brief history of the government structures of the various dynasties of China and explains how rule was consolidated over a variety of very different regions, thereby creating the ethnically diverse, bureaucratic China of today. He then covers the struggle of the CCP to control the country in the era of the Kuomintang. Having survived encirclement campaigns by the nationalist KMT, which was bitterly opposed to CCP ideology, followed by the Japanese invasion during World War II, Mao demonstrated his brilliance at using nationalism to garner the trust of hundreds of millions of peasants.

Following the rout of the KMT in 1949, Mao solidified power and undertook grand plans for industrialization to bring China out of its agrarian state. Like Qin Shi

Huang, China's first emperor, Mao brought about the complete unification of the country through a violent hand that demanded obedience. He also simplified Chinese characters to increase literacy rates, the better to indoctrinate the population.

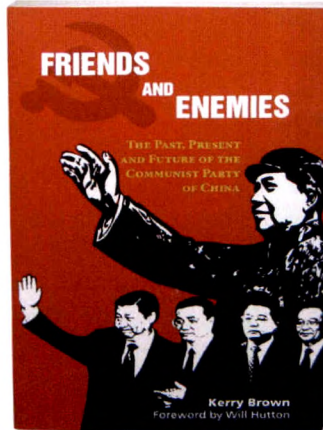
After Mao came the economic reform brought about by another paramount leader, Deng Xiaoping. Under Deng, the CCP showed its resilience in being able to survive beyond the death of its founder by

slowly adapting to the demands of the people. China saw a gradual shift not only in ideology, but in the power structure of the Party from a one-person dictatorship to collective leadership. Under this structure, the Party ensured that it continually received input from the best and brightest. From the slow disappearance of Deng and the rise of Jiang Zemin—who was plucked from obscurity

to lead the country after the Tiananmen Square Massacre—to the emergence of Hu Jintao today, Mr. Brown covers the ever-evolving nature of the Party.

It is not until he finishes this history that Mr. Brown begins his analysis of the problems the CCP faces today and how he believes the Communist Party will adapt in the next few years. The challenges which he calls the three E's—energy, economy and environment—are nothing new to anyone who has read an article about China in the past month. Moreover, his conclusion that China needs to solve its internal conflicts in order to become the great world power it wishes to be is hardly earth-shattering.

However, not everyone will agree with the prediction that democracy will peacefully emerge before 2050 based on the assumption that leaders remain prag-



matic and determined to stay in control. Because China lacks potential leaders with the stature as Deng and Mao, Mr. Brown argues, the CCP needs to ensure the subsequent changes of leadership go smoothly, and that requires greater popular participation.

It is here that Mr. Brown detours into an argument on how the current CCP leaders are worrying about the next 20 years. The Soviet Union survived for 74 years, and thus CCP leaders are wary of the stability of their government in the near future, he writes.

If this is true, then the CCP leaders have failed to note that the fall of the Communist Party in the Soviet Union was based not on time elapsed since the revolution but rather on the failings of its economic and political institutions. There is no timer that is running out for the CCP in China today. In fact, it is far removed from the parlous state of the U.S.S.R. in 1991, as the CCP is no doubt fully aware. Contrary to what Mr. Brown says, this historical "milestone" is probably not at the forefront of CCP leaders' concerns.

Though lacking depth, the book does create vivid characters and succeeds in what Mr. Brown set out to accomplish. Some critics may find his predictions for democracy a bit too sanguine, but then few would have predicted China's economic reforms would have gone so smoothly either.

The brevity with which Mr. Brown treats the topic leaves the reader wanting more. China is one of the major international players today, and he is right that unless we begin to understand the governing party we will have trouble engaging with the Chinese people. It will take much more than *Friends and Enemies* to gain that understanding, but for some it will be a useful starting point.

JAPAN'S GESTAPO: MURDER, MAYHEM AND TORTURE IN WARTIME ASIA

by Mark Felton

Naval Institute Press, 224 pages, \$39.95

Reviewed by JILLIAN MELCHIOR

YOU HAVE BEEN warned. "This book is not for the fainthearted or easily disgusted," reads the first line. And it's no hyperbole; Mark Felton describes in gut-wrenching detail the physical, sexual and emotional tortures wrought on Allied soldiers and Asian civilians by the Japanese military police.

What Mr. Felton labels "Japan's Gestapo" is properly called the Kempeitai, founded in 1881 in response to the daunting intrusions of the Western world. By the time World War II began, the Kempeitai was already a powerful and integral part of the Japanese security apparatus, with its members accustomed to using violent methods to accomplish their objectives. Entangled in several branches of the Japanese government, the Kempeitai's powers surpassed those of the German Gestapo. Its responsibilities included combat, intelligence and espionage, the management of civilian and prisoner-of-war camps, propaganda, biological and chemical warfare, and experimentation on prisoners.

During World War II, the Kempeitai oversaw 676 slave-labor camps holding 140,000 prisoners of war, who faced stringent punishment for the slightest infraction. One prisoner held at a Kempeitai-run camp recalled that up to nine POWs would be forced to stand at attention while placed in a barbed wire cage, about six feet by four feet, built atop a red ants nest.

As the war drew to an end, the Japanese were determined to leave no survivors. In

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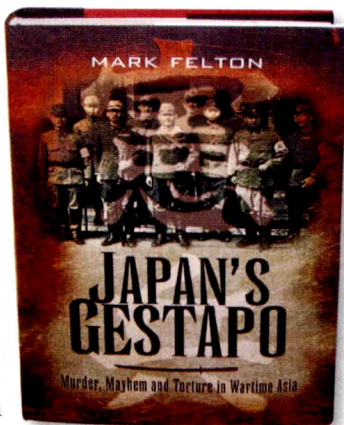
one instance, the Kempeitai forced a group of POW laborers into a mine. The guards then “proceeded to push empty steel ore bins down the narrow gauge railway track into the mine, allowing them to gather speed and plunge into the depths on top of the terrified and confused prisoners below.” An order was then given to blow up the entrance to the mine, creating “an avalanche of rock and earth” so that “all 387 POWs were entombed in its depths, where their bodies still lie today.”

The Kempeitai also plagued Japanese-occupied cities, interrogating locals and expats. Allied foreigners deemed harmless by the Kempeitai were banned from movie theaters, clubs, horse races and other social venues. Worse yet, “even citizens of neutral countries came under close Japanese scrutiny, and some were arrested and cruelly treated in direct violation of international law,” Mr. Felton writes. Those suspected of resistance were held in rat- and lice-infested prisons where typhoid, leprosy and dysentery were rampant, to be subjected to interrogation and torture.

Here and elsewhere, Mr. Felton’s thorough research allows him to be graphic. “One Russian woman ‘suffered degrading indignities which included the insertion of sharp objects in her vagina, violent electric shocks applied through her nipples, the pulling out of finger- and toenails and blows which had broken her jaw,’” he quotes. Throughout the book, these gruesome stories are accompanied by Mr. Felton’s pronouncements about “the worst treatment imaginable” or “hair-raising brutality” and “pure evil.” The stories would speak for themselves without these statements of the obvious.

Mr. Felton at times seems to judge all

Japanese culture on the basis of the behavior of the Kempeitai. He tells the tale of battered Allied soldiers stripped naked and exhibited behind bars at the Ueno Zoo in Tokyo. This instance, he postulates, “reveals a truly bizarre and sadistic streak rooted in the Japanese character—similar in many ways to the present delight in ritual humiliation and torture to be found in many modern Japanese game shows on television.”



The Kempeitai’s brutality was not limited to Westerners; it was inflicted on Asians in the region and even Japanese citizens, a phenomenon that Mr. Felton details thoroughly. Soon after its founding, the Kempeitai sought to enforce domestic peace while resentments still simmered after the Satsuma rebellion. In the name of the state, the Kempeitai could pluck civilians off the street on a

hunch, torture and interrogate them. “The merest fact that someone had been arrested signaled guilt to the Kempeitai,” Mr. Felton explains, adding that there was no concept of “innocent until proven guilty.”

Perhaps the most disturbing chapter tells the stories of “comfort women,” recruited, or more often captured and forced, into prostitution for Japanese soldiers. The Kempeitai assumed their soldiers required a sexual outlet, but private brothels were believed to harbor diseases dangerous to the men’s health. Mr. Felton writes that throughout World War II, “between 60,000 and 200,000 young women were forced into sexual slavery.” Most were Asians, though as many as 300 were Europeans. Mr. Felton quotes a young Dutch woman captive at a brothel outside Selarang in Java recalling her first night: “I could hear all the screaming coming from the bedrooms, you know,

and you just wait for your turn ... And there stood this large, fat, bald Japanese officer looking at me, grinning at me, and I put up an enormous fight, but he just dragged me into the bedroom.” He goes on to describe the rapes of many young women held in Kempeitai brothels.

If history is valuable for its insights into human nature, this book emphasizes the worst, as Mr. Felton admits from the beginning. Evil and cruelty suffuse all 224 pages. A historian might claim that goodness and courage are best shown in contrast to evil and cowardice, and certainly the stories of some of the braver Kempeitai victims are inspiring.

So what justifies reading a book on such a terrible topic? Somehow, the “never again” explanation falls short. After all, brutality and mass murder are no rarities in human history, with genocide, war crimes and torture have been committed often since World War II. Museums, memoirs and monuments have done little to prevent their recurrence. Furthermore, the reader is left wondering whether the microscopic retelling of generation-old brutalities merely reopens wounds and stokes regional resentments.

The biggest flaw ironically springs from Mr. Felton’s considerable talent for detail. At times, Mr. Felton verges on sensation-

alism, offering numerous vignettes told in a narrative that reads like fiction. Even when he adopts a more scholarly tone, he risks satisfying his readers’ morbid curiosity without offering any redeeming observations or analysis. This taints a history that merits solemn remembrance, and the litany of Kempeitai crimes devolves into variations on the same tortures.

Mr. Felton comes closest to justifying the exercise of remembering when he writes briefly about how international courts and the postwar Japanese government have failed to enforce justice despite the comprehensive war crimes recounted throughout the book. He cites an estimate that on average one Japanese was executed for every 250 Allied pows murdered. Indeed, “the overwhelming blizzard of evidence suggests that violence against local populations and Allied prisoners was casual, common and encouraged by senior officers,” he writes. “Even to have tried ten times as many would still have only dealt with a minority of those Japanese guilty of some form of war crime.”

Overall, *Japan’s Gestapo*, though not enjoyable, is skillfully rendered. But in the end some of the details of Kempeitai brutality would have been better left unmentioned or undramatized. History is unreliable when obscured by emotion. ■

WILL THE INTERNET KILL THE MANHWA STAR?

by Geoffrey Cain

IN HIS BAG, Park Jae-dong always carries a fine-point ink brush. When his fans approach, the artist says little, choosing instead to communicate through the cartoons that have made him a national icon in South Korea. He pulls out the brush—smirking, as though he has a new idea each time—and paints furiously onto a piece of cardboard, dashing off an impromptu self-caricature with his signature below it.

While Mr. Park is still a well-known public figure, with his wavy gray hair and leftist views, the life of a famous cartoonist isn't what it used to be. He brought comic relief to a generation of Koreans suffering under military rule in the 1980s, but today's young people usually don't recognize him, let alone ask for his autograph. The kids today have their mobile phones, computer games and neon-lit nightlife to entertain them.

That said, Mr. Park's art of Korean comic books, or *manhwa*, is hardly dead. Koreans are still justifiably proud of their rich tradition of cartoons tackling social issues and lampooning repressive regimes going back to the Japanese colonial administration in the early 1900s. In an era of democracy and prosperity, however, *manhwa*'s domestic role is changing. Technology has brought new challenges and opportunities.

Meanwhile, *manhwa* is exploding in popularity globally, thanks in part to publishers' heavy marketing on the In-

ternet and on mobile phones. Previously the craft was overshadowed by Japanese *manga*, which took an 80% share of the world-wide comic book market. Television shows such as *Dragon Ball Z* became staples on television schedules in the West. But that generation of comic-book readers has grown up and young fans are looking for something new. This decade, manga sales have fallen by half of their 1995 peak, and some are predicting a shake-up in the manga industry.

Enter the "Korea Wave," the recent trend of South Korean cultural exports gaining popularity abroad. Just a few decades ago, South Korea was a poor and isolated country, ruled by a military government that stifled pop culture. But Korea's rapid growth, political liberalization and wiring to the Internet have spurred the creation of television shows, movies and magazines that have found new markets around the world. Last month, one publisher announced it would sell *manhwa* in North Africa, a first after expanding into North and South America and Europe earlier this decade.

Korean artists were the first of any country to pioneer "Webtoons," or free Internet cartoons, which began dispersing *manhwa* around Asia in the early 2000s. Aside from being free, manga fans were drawn in by Korea's highly realistic storylines, adult-oriented dramas that draw on the country's recent history. That's a far cry from the dark science-fiction themes and wide-eyed, cheeky adolescent characters that typify manga.

∞ Mr. Cain is a free-lance writer based in Seoul.

"Everyone has an emotional side, and manhwa appeals to this," Mr. Park muses, referring why manhwa is becoming attractive to more fans. "People can identify with the characters, and feel what the characters feel. It's a sort of relief from everyday life."

Now artists are feeling the effects of free online content, despite manhwa's growing popularity. Ten million Koreans read free Web comics, while only three million choose to pay, according to the Korean Culture and Content Agency, a government-affiliated body that promotes Korean arts around the world. In the past two years, at least 10 Korean cartoon magazines have stopped publication due to a lack of subscribers. South Korea only has 12 such magazines now, compared to 300 in Japan.

Even with the chunk of paying readers, many artists say they don't receive a fair share of their Webtoon revenues. A Web site publisher usually pays a flat fee to cartoonists, then charges the readers a fee to view the cartoons, Mr. Park says. In this system, the publishers' revenues hardly reach the artists. He is currently planning a Web site that will give a portion of the fees to the artists, possibly cutting out the publishers. The plan, unfortunately, still fails to address the illegal pirating of manhwa that has become so rampant.

Mr. Park is also trying to focus public attention on preserving the history of manhwa. Between Sept. 23 and 27, he unveiled a new manhwa museum just outside Seoul, a building with three floors of comic book archives and exhibits. The edifice itself is a work of art, a sleek eye-pleaser plopped between rows of dreary apartment buildings. Mr. Park thinks the futuristic architecture symbolizes the trends changing manhwa, with its shift from paper-based distribution to the Internet and mobile phones.

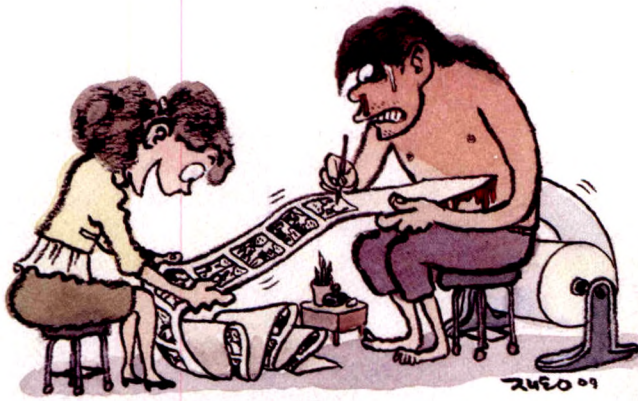
Although they may miss the golden political years, the veteran artists say they don't mind catering to today's politically ap-

athetic youth. "Manhwa has become more diverse," says Kim Dong-hwa, head of the Korea Cartoonists Association. "We still have political cartoons, but that's not our focus anymore. We have democracy now." Call it a measure of Korea's national pulse—a society that wants to put aside memories of poverty, war and dictatorships, eager for what the 21st century will bring.

In the past, cartoonists often lampooned dictatorial government policies, giving relief to Koreans struggling in dark times, Mr. Park says. One hundred years ago, in 1909, Lee Do-yeong penned the first manhwas in the *Daehan Minbo* daily—tiny strips full of dark humor about Koreans and their Japanese masters. In one cartoon, he depicted Koreans as cats plotting to collaborate with the Japanese against fellow countrymen. The popular reception of his cartoons led the Japanese administration to ban the newspaper, and manhwa did not re-emerge again until the Korean War.

In the late 1940s, Kim Hong-hwan created the character Kojubu Samgukchi, a balding man in a suit who always winds up in embarrassing situations. Kojubu became South Korea's most recognizable cartoon character, akin to Mickey Mouse in the United States, and a reassuring figure for Korean children in the turbulence of the early 1950s. After the war ended, manhwa spread to several newspapers in the somewhat open press environment, but the cartoons were still targeted at children. Kim Seong-hwan, the cartoonist behind *Kobau*, the longest-running serial ever in South Korea, says artists "got pennies" for their strips in the 1950s, since the publishers didn't really see the point of running them in place of advertisements.

That all changed in the 1960s. Park Chung-hee launched a coup d'état in 1961 against a nine-month-old parliamentary government, imposing authoritarian rule in order to build South Korea into an industrial powerhouse. Park curtailed



Manhwa artists are known for depicting dramatic adult themes and dark humor, a sharp contrast from the youth-oriented storylines seen in Japanese manga.

freedom of speech, jailing dissenters under the slightest suspicions. Life for many South Koreans meant suffering, and manhwa gave them a reason to cheer up.

Knowing this, the government encouraged publishers to create *myongnang manhwa*, or patriotic “cheerful comics.” Publishers jumped on the bandwagon, opening presses across Seoul and distributing the comics to all audiences. Comic-book magazines catered to children, depicting unpatriotic, mischievous characters receiving justice and mocking the leaders of North Korea. Alongside the cheerful comics, South Korea saw an influx of pirated Japanese mangas during the 1970s, adding to the popularity of comic books.

The country’s export-led growth under Park Chung-hee peaked, and in the 1970s the young, educated middle class felt the time was approaching for the political system to open up as the economy had. Thanks to manhwa’s growing popularity, artists saw they could humorously use it against the government.

After the student protests in the 1970s, manhwa shifted away from cheerful themes toward dark humor. Many stories were highly taboo in Korean society, such as those depicting the urban underclass that benefited little from the country’s development, as well as gender inequali-

ties and South Korea’s rapid economic growth set against repressive political rule. Artwork became more realistic, and storylines more oriented toward adults.

A Daunting Team, published in 1983, set the standard for the 1980s, what artists now call manhwa’s golden age. The comic book depicted a scruffy baseball player, Kkachi, who defied authority during the dic-

tatorial regime of Chun Doo-hwan—the military ruler between 1980 and 1988 who continued the repressive policies of Park Chung-hee. Kkachi was an average kid whose rebelliousness fueled his baseball talents and earned him success.

Koreans wanted to see more characters like Kkachi, average people whose hard work, not their connections, catapulted them to stardom. Artists like Heo Young-man, Lee Hyun-se, and Park Bong-seong took the cue and molded Horatio Alger-style characters who rose from extreme poverty to achieve success in government and business, often against the wishes of fictional aristocrats. Government censors, however, feared that such stories would taint South Korea’s image before the Seoul Olympic Games of 1988 and cracked down on the publishers. Pirated, underground comic books became common.

Manhwa increasingly targeted women in the 1980s. Unlike in Japan, where girls’ comics usually portrayed flowery teenage romances, cartoonists in South Korea spared no details in stories of gender inequalities, poverty and divorce, according to the Korea Society, an NGO that promotes Korean culture in the U.S. Hwang Mina’s 1986 publication, *We Saw a Pity Bird Who Lost Its Way*, followed a group of underclass girls and the horrific domestic abus-

PARK JAE-DONG

es they encountered. The government unsuccessfully tried to prevent the book from being published, fearful of the consequences as the 1986 Asian Games were about to begin in Seoul.

Meanwhile, Mr. Park drew political cartoons for *Hangyeore Sinmun*, a popular left-leaning newspaper in South Korea, from 1988-96. He lampooned the government of Roh Tae-woo with sarcastic, sometimes caustic, takes on his policies. The rest of Korean society didn't get off free either in his witty commentaries on gender discrimination and businesses. "My work became famous because people could laugh when political events were very serious," he suggests.

In 1996, Mr. Park expanded his cartooning to include film animation, in line with a growing trend in the industry to diversify away from print. After all, by then Mr. Roh had ushered in democratic reforms, and by 1994 the first civilian president Kim Young-sam had cracked down on the corruption that cartoonists once ridiculed. It seemed there was no longer enough to criticize.

Since then, teenage romance tales and ghost stories have taken over from the politically charged content of the 1970s and 1980s. Computer games also rival paper as the medium for manhwa art, as many artists move into that industry. It's not entire-

ly clear where manhwa stands or where it's going, but artists are encouraged by the increasing international attention focused on Korean comics.

Mr. Kim, the head of the cartoonists' association, sees a particular need to attract entire families to the art form, rather than mostly young adults. "I'm creating a family manhwa, to depict everyday life in a friendly way," he says. "Some manhwa needs to focus on traditional Korean society, something that an entire family can read together." His upcoming book will be about a large family living a simple life in medieval Korea. Perhaps such an idea reflects his views on Korean society, as many youngsters become increasingly preoccupied with and isolated by their technology.

Whether technology will kill the comic book or perpetuate it is still an open question. Naysayers call comics a dying art, but thousands of fans turned out for the grand opening of Mr. Park's museum. Perhaps manhwa isn't dying so much as transitioning as publishers struggle to adapt to the Internet generation. After all, even with their high-tech gadgetry, Korean youngsters can still be seen reading manhwa in coffeeshops and on the subway. They're just doing it on their mobile phones instead of on paper. ■

Just Hold It

PARTICIPANTS IN CHINA'S giant National Day parades have in the past worn adult diapers in order to avoid the trouble of bathroom breaks. This year it seems they are relying on will power. This poster was



sighted at a training camp for the parade troops. The translation:

"Sit for four hours and don't move
Stand for four hours and don't fall
Blow for four hours and don't get tired
Hold for four hours and don't urinate."

Action Off the Pitch

INDIA'S NATIONAL CRICKET team has received some unusual advice from their coach Gary Kirsten: Have sex before the big match. "From a physiological perspective, having sex increases testosterone levels, which cause an increase in strength, energy, aggression and competitiveness," a leaked memo to the team instructed.

Enjoy the Bubble While It Lasts

THE MOST COMMONLY heard theme at the CLSA Investors' Forum in Hong Kong was asset price effervescence in greater China. Of course, most analysts brought up the idea of a bubble only to shoot it down, claiming that the fundamentals are wonderful, investors are wise to continue buying assets, etc. One exception, however, was Francis Cheung, head of China/Hong Kong strategy, whose report was entitled "Bubble Trouble: Enjoy the Ride." He too was

advising investors to buy, but for a different reason: China's economy is not as good as it looks, and therefore the government will need to continue giving fiscal and monetary support. While there might not be a bubble yet, that support has already "created bubble conditions." So get in on this giant Ponzi scheme while there's still time!

Nano Technology Used for Evil

THE JAPANESE ARE tops in most categories of peeping Toms, and here's another first: A Kobe man was arrested for hiding the just-released video camera-equipped iPod Nano in his shoe to film up the skirt of an 18-year-old girl.

**Pray to Great Leader
This Plane Doesn't Crash**

SOUTH KOREAN FLAG carrier Korean Air takes as its motto "Excellence in Flight." By contrast, its North Korean doppelganger, Air Koryo, seems to prefer "Political Correctness



in Flight." A REVIEW contributor recently flew on one of the company's Tupolev 204s from Beijing to Pyongyang, and was amused to find that passengers not only get a safety briefing before takeoff, but also a political briefing. And given the fact that the airline has been banned from Europe for poor safety standards, it's not hard to guess where the priorities lie.

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CHINA FINANCIAL MARKETS

8th
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LAST CHANCE TO REGISTER

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China Renaissance Partners



Vincent Cheng

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The Hongkong and Shanghai Banking
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AUTHOR'S CORNER

Arm Rest Wars

by Robin Hemley



127 From 11/10/09

Migrant workers, many of them Filipinos, stage a rally against racism and discrimination targeting ethnic minorities in Hong Kong, April 2, 2008. The rally was staged following Hong Kong columnist Chip Tse's editorial article in which he described the Philippines as a "nation of servants."

I immediately regretted giving the man in the seat next to me my newspaper because it had something I wanted to read more about, the latest installment in the Chip Tse scandal. Chip Tse had written a piece for Hong Kong Magazine calling the Philippines "a nation of servants." The weird thing about the Chip Tse incident was that it had been intended by the Hong Kong writer as satire, not so much against Filipinos as against the imperious attitudes of China in its dispute with the Philippines over the Spratly Islands as well as the Hong Kong Chinese attitude of superiority towards Filipinos.

Posted November 4, 2009

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China's Assault on the Rule of Law

by Sophie Richardson

Despite a recent high-profile release, Beijing continues to jail human-rights advocates.

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UNFREE SPEECH

China's Export of Censorship

by Christopher Walker and Sarah Cook

Beijing is using its growing power to stifle speech abroad.

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by Sudeep Doshi

India has helped revive the Doha round. But whether anything can be achieved remains to be seen.

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Once again, the Ambani brothers in India are at loggerheads. They are caught in a complicated business dispute that raises questions about the way contracts are honored in India, the role the state plays in such disputes, and the way India prices its assets. None of this augurs well for India's investment climate.

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The DPJ and U.S.-Japan Security By Michael Auslin

Just days before his party took power in September, Democratic Party of Japan (DPJ) lawmaker Tsuyoshi Yamaguchi stated that missile defense was "almost totally useless." This week, as DPJ leader Yukio Hatoyama became Japan's prime minister on Sept. 16, Japan Air Self-Defense Forces shot down a mock ballistic missile over the skies of New Mexico. Which security policy approach will survive under Japan's new government? The answer has implications not only for Japan, but also for the United States' position in Asia.

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The Next Chinese Revolution By Daniel Lynch

Today marks the 60th anniversary of the People's Republic of China. There will be massive military parades and many speeches by the leaders of the Communist Party. But no one will mention the very real possibility of political upheaval in the near future, or the economic inequality, job losses and slow down in economic growth the country is currently experiencing.

Posted October 4, 2009

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DECEMBER 2009

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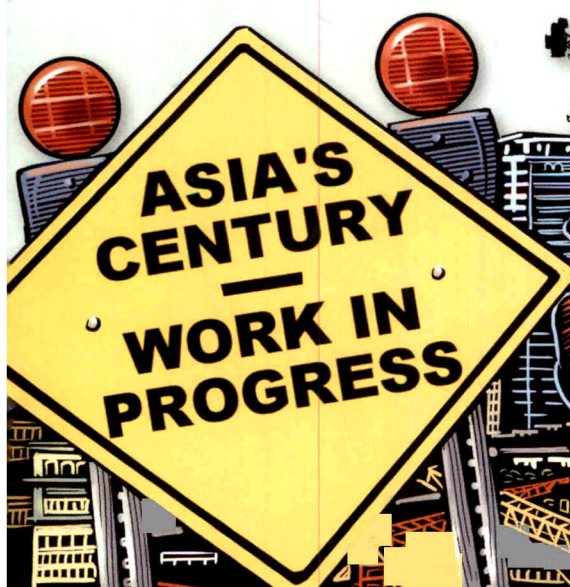
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FAR EASTERN ECONOMIC REVIEW



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FOR THE LAST five years, every new issue of the REVIEW has felt like a minor miracle; with such a tiny staff, we were always flirting with disaster. And now we're all out of miracles. This is the final installment of the magazine after a run of 63 years.

First and foremost I must thank Deputy Editor Colum Murphy for his unflagging hard work and dedication to the magazine's mission. Florence Lau, our office manager, and Ruth Abella, our free-lance designer, kept the contributors happy and the magazine looking like we spent much more on it than we really did. Working with talented free-lance artists like Harry Harrison and Tim Foley has been a privilege, and likewise watching design genius James Reyman craft the magazine out of blank InDesign templates in the course of a few weeks in late 2004.

We've been particularly fortunate to have a string of talented and energetic interns provided by the Princeton in Asia program: William MacNamara, Leslie Hook, Paul Mozur, Janis Foo, Tatiana Lau and Alice Lloyd George. Despite the trauma of being thrown straight into the deep end of editing, several of them have since embarked on journalistic careers, adding to the serried ranks of REVIEW alumni on the staff of publications around the world.

Finally, we thank our contributors, who were the leading "stakeholders" in this enterprise. Some of our most insightful and prolific writers are represented in this issue, having responded to an invitation to help the REVIEW go out on a high note. Hopefully we have helped in a small way to transmit your important ideas to new audiences.

In this issue, former Contributing Editor Bruce Gilley offers a provocative take on the significance of the REVIEW in its heyday, and why no imitator will be able to fill such a niche again. Whether or not you agree with his conclusion that the magazine's power was bound up in a shared colonial heritage among expats and local elites alike, there is something in the idea that the post-war half century ultimately was characterized by centripetal forces tempering nationalist impulses and bringing the economies into closer orbit.

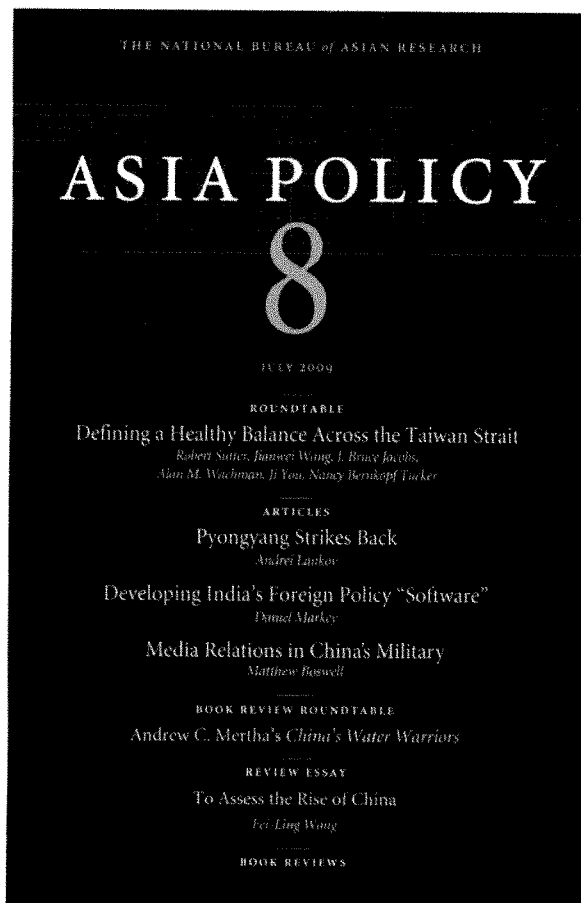
Are those trends going into reverse? It's too early to say, but it does seem that the Pax Americana is waning. One of my favorite books is *Not Without the Americans*, by the legendary war reporter Keyes Beech. That maxim's hold seems more tenuous now, especially since President Barack Obama's recent trip. But if we are truly entering an Asian century, there is a vacuum of regional political leadership. If only the REVIEW were still around to chronicle how it is filled.

H.R.

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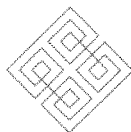


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No Sacrifice of Taiwan

I WOULD LIKE to rectify a number of misconceptions in Michael Fonte's essay "The DPP Calls for Round Two" published in the October 2009 issue. Firstly, charges of a political vendetta against the DPP are utterly unfounded. The Special Investigation Division of the Supreme Prosecutors' Office, which conducted investigations of and ultimately indicted and prosecuted former President Chen Shui-bian, was established during his presidency, and the prosecutor-general who oversaw the SID was appointed by Mr. Chen himself. The SID waited until Mr. Chen's presidential term expired to initiate the prosecutorial action against him only because a sitting president is constitutionally immune from prosecution.

Freedom of person is guaranteed under the R.O.C. Constitution, and detention can be carried out only in accordance with Article 101 of the Code of Criminal Procedure. Prosecutors must file a motion for detention with a court of law, which then must conduct a hearing. The detention of Mr. Chen is the result of such due process. As to the skit performed by government employees at a dinner organized by the Ministry of Justice celebrating Law Day in 2008, the ministry had no prior knowledge of the skit, and has warned its employees to refrain from such behavior.

Regarding reform of the Assembly and

Parade Act, the Executive Yuan (Cabinet) on Dec. 4, 2008 approved a draft revision of the act and forwarded it to the Legislative Yuan for review. The main feature of the draft—scrapping of the requirement to obtain permission for public demonstrations, and requiring only simple notification of planned demonstrations—is in line with proposals of reform advocates.

There is no need for a temporary special commission to investigate the clashes between police and demonstrators that occurred during the November 2008 visit of Chen Yunlin, chairman of the Association for Relations Across the Taiwan Strait. The R.O.C. has a permanent branch of government expressly mandated to independently investigate allegations of official malfeasance, and it has indeed been independently investigating the November 2008 clashes.

As for the disaster inflicted by Typhoon Morakot, President Ma is deeply grieved at the suffering and loss of lives, and has pledged that our government will carefully assess and take full responsibility for its policies and actions. In response to the numerous generous offers of humanitarian aid that poured in from around the world, we immediately set up a dedicated bank account to facilitate donations and, once we had ascertained which sorts of practical assistance would be helpful, we made this known to governmental and nongovernmental organizations, which cooperated in a timely manner. We did not reject any foreign humanitarian aid offered to us.

The main purposes of our government's negotiating an economic cooperation framework agreement with mainland China are to maintain the competitiveness of our businesses in the mainland market, boost our foreign trade, and reduce the

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risk of Taiwan's being marginalized. It concerns only the economy and has nothing to do with sovereignty or political issues. There is thus no need for ratification by means of a national referendum.

We will do our best to ensure that traditional, less competitive industries in Taiwan are not included in the "early harvest" list of tariff-free goods. The 834 agricultural products from Taiwan that are currently protected will not be exposed to tariff-free competition. Although the Ma administration has been making efforts to reduce cross-Straits acrimony and regional tensions, it has no intention of bending to mainland China's will at the cost of Taiwan's interests.

In democratic countries, the transfer of power from one ruling party to another is a routine matter. All political parties in Taiwan should endeavor to interact in a spirit of healthy competition with the aim of giving our all for the welfare of this land.

*Su Jun-pin
Minister*

*Government Information Office
Republic of China (Taiwan)*

Assurances Welcome

REGARDING TAIWAN GOVERNMENT Information Minister Su Jun-pin's letter in the November issue responding to my September essay "Behind the Dalai Lama's Taiwan Visit," it's encouraging to hear that Taiwan's democratically elected government did not come to terms with Beijing over the limits placed on the Dalai Lama's controversial visit in September. Yet I know no one who thought it "preposterous" that they might have done so, including a number of international scholars.

Beijing's intense opposition to the visit provoked concern in Taipei that it would disrupt ongoing negotiations on agreements that were high priorities for the government of President Ma Ying-jeou.

Hence a lengthy meeting of the National Security Council to discuss the matter. The China Daily commented at the time that the Tibetan leader's visit was a "lose-lose" for both sides.

The report by the Kyodo News Service, mentioned by Minister Su, cited a credible source who was an adviser to former President Lee Teng-hui. The Kuomintang, Taiwan's ruling party, also dispatched an emissary to Beijing to gain "understanding" for Taipei's decision to let the visit go ahead. In view of many other instances of accommodating China during the past year, Minister Su's assurance that they did not do so in this case is most welcome.

On the response to Typhoon Morakot, the adequacy of the government's emergency measures is still being debated. The question, however, is not one of legalities but of timely action. Yes, President Ma insisted that the Disaster Prevention and Response Act of 2000 was adequate to the rescue efforts and that an emergency decree was unnecessary. But this view has since been questioned, even by ruling party legislators. The assertion that under-resourced local governments should bear the main responsibility as first-responders is especially contentious. Only the president can mobilize the military, and his leadership to rouse the bureaucracy is essential.

To be sure, Morakot was a severe test of crisis response measures. But in their extended apologies to the public, President Ma and his top officials acknowledged they could have done a better job and vowed to do better in the future.

That Taiwan's civil liberties and democratic rights have eroded during the past year is a conclusion drawn by many international observers. Both Freedom House and Reporters without Borders have significantly downgraded Taiwan's standing in their annual reports.

*Julian Baum
Washington, D.C.*

Elegy for a Colonial Perspective

A former REVIEW contributing editor reflects on what made the magazine successful in its heyday, and why the passing of the region's old elite makes producing regional media more difficult.

by Bruce Gilley



IT WOULD BE easy to attribute the demise of the FAR EASTERN ECONOMIC REVIEW to the shifting economics of the media industry. After all, hundreds of newspapers and magazines have gone down the tubes in recent years under the combined weight of the Internet and economic recession. But if that were the case, it would also be easy to identify the new and emerging outlets of authoritative Asian news and analysis that had eaten the REVIEW's bento box.

In fact, there is no such thing, on paper or online. While new academic journals on the region have sprung up, an Asiaphile in search of news on the region will be totally stumped. This is remarkable when one considers that Asia Pacific has one-third of the world's population; the proportion rises to half if South Asia is included. For many decades, the REVIEW was the magazine of record for this sprawling and diverse region. How is it that Asia has disappeared as a media proposition

while the region has boomed as an economic and even political proposition?

The Economist explained in a recent column that the REVIEW's demise was a result of the increasingly specialized tastes of Asian consumers, which are better reached via local publications. But the REVIEW never catered to Asia's emerging middle class, whose parents were peasants when the magazine was gathering momentum. The Asia that the REVIEW supposedly lost was not the one on which it built its success. Rather, its Asia has disappeared and will not return. That was the Asia of the colonial mind—and not in a pejorative sense.

For several decades spanning the era of late colonialism in the 1950s to the spread of intense globalization in the early 1990s, a unique cultural niche sprang up in Asia. It was a transitory and transnational community peopled by Western expats—diplo-

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mats, executives, scholars and travelers—and local Asian elites in business, government and education who were themselves products of the colonial era.

In light of the region's past and future, it is remarkable that this niche existed at all. But for a few decades, it was possible to speak of a certain epistemic community of Asia-hands and Asian elites who shared a perspective on the region's development. It was an Asia that was neither parochial nor Western but colonial—an in-between place of mutual understanding and shared perspectives and goals. That Asia has now disappeared, like a whole continent subducted under powerful new forces of localism and globalization. With it goes the REVIEW.

Perhaps what is most surprising about this period was the local audience, which was often bombastically anti-Western. Yet the likes of Jawaharlal Nehru, Lee Kuan Yew, Ferdinand Marcos and Mahathir Mohamad shared an essentially colonial mentality about their region and their countries. This mentality was one of seeing certain universals in the struggle for development and governance, while affirming certain limits relating to the cultural particularities of each place. This niche allowed the REVIEW to cater to a diverse region. The British empire lorded it over many of the entrepôts where the REVIEW sold best—Hong Kong, Singapore, Malaysia, India. Politics was about stability, economics was about state-led growth, and business was about intricate social and cultural networks.

Amid all the jousting that the REVIEW undertook in piercing the pretensions of local elites—and finding itself or its reporters in the dock in Malaysia, Singapore, Thailand, Indonesia, Vietnam

and Pakistan—the magazine was essentially aligned with their perspectives on the region. Lee Kuan Yew may have hated the REVIEW, but only in a narrow sense of a fraternal fight, the way that Chiang Kai-shek hated Mao Zedong. In a broader sense they were cut from the same cloth and spoke the same language. They all saw Asia from the perspective of colonial governors, which is why they so feared democracy and its localizing impulses. When the legendary Derek Davies, editor from 1964–89, died in 2002, the New York Times obituary commented that he had “built the magazine into a major source of news and comment on the region despite his love-hate relationship with its prickly rulers.” As time passed, the love grew but the lovers died off.

Longtime Asia correspondent Jonathan Manthorpe wrote in October: “The FEER was sometimes criticized by Asian nationalists for being an English language publication, written by Western journalists, and catering to regional elites. In many ways these three qualities were some of its strengths.” And those Asian nationalists knew it. It is somehow fitting that in October, just as Dow Jones announced the demise of the REVIEW, Singapore's high

court upheld a 2008 defamation ruling against the magazine. It was a faint echo from the past when Asian leaders cared deeply

about the perspectives of a weekly magazine run by

boozy expats. Lee

Kuan Yew, without a hint of irony, described the REVIEW as “reputable, august and authoritative” while suing it for defamation in 1989. The

Orient as a media proposition could never exist without the Orientalists.



Once that essentially colonial perspective gave way to today's cacophony of local and Western perspectives, no regional magazine selling a singular perspective could survive.

To understand the cultural niche that the REVIEW occupied, two British novels are essential: Graham Greene's 1956 classic *The Quiet American* and John le Carré's 1977 bestseller *The Honourable Schoolboy*. Greene's novel is important because it illustrates the monstrous illusion that somehow the REVIEW's failure was a result of Americanization—in particular Dow Jones's full takeover of the magazine in 1986-87 and the replacement of its British editor, Philip Bowring, by a very quiet American, Gordon Crovitz, in 1992. Mr. Bowring was heir to the colonial perspective at the REVIEW, which had been most fully expressed under the leadership of Davies, a former British spy in Vietnam.

In Greene's novel, this perspective is represented by Thomas Fowler, a boozy, cynical, empathetic and well-informed British journalist covering the French wars in Vietnam. The novel leaves little doubt that we are supposed to sympathize with Fowler, who is contrasted to the quiet American, Alden Pyle, the East Coast American with transformative universal theories who does not really understand or care about the region except as a test case for bigger propositions. "Isms and ocracies. Give me facts," Fowler says, "I don't take sides. I'll still be reporting whoever wins."

Mr. Bowring and others from the British wing of the REVIEW frequently attributed the magazine's demise to this transition from the Fowlers to the Pyles. It is true that the takeover and makeover by Dow Jones did little to help. But the ship was already sinking because the Asia that the REVIEW had catered to was disappearing. Newer Asian elites were not interested in the colonial perspective, British or American. To blame it on Pyle is to tell

oneself a comforting story that the colonial perspective would have continued to attract readers in Asia. It could not. A continued Fowler ascendancy would have attracted a smaller, if more fanatically loyal, audience. In Greene's novel, Fowler's loss of his mistress Phuong to Pyle—as the British loss of the REVIEW to Dow Jones—elicits a stream of anti-American invective from Fowler. He is at least big enough to admit that "what I hated was the future."

The Honourable Schoolboy traces the same illusions while explaining the earlier successes. Le Carré thanks "Derek Davies and his staff at the Far Eastern Economic Review" in the preface. The central character, old Craw, is based on Richard Hughes, "Far East correspondent" for the Sunday Times who wrote a column for the REVIEW from 1971-83. Craw, an Australian journalist, "had covered the Communists against Chiang Kai-shek and Chiang against the Japanese and the Americans against practically everyone" and "had shaken more sand out of his shorts ... than most of them would ever walk over."

Michael Vatikiotis, the last great Fowler of the magazine as editor from 2001-04, put it thus: "Increasingly, the media that survives is local and circulates in Asia's larger cities, rather than between them." Mr. Vatikiotis's idea of media catering to an increasingly Balkanized readership is echoed by others. Mr. Manthorpe lamented that "FEER currently has no successor and that there is no publication in Asia, either on processed dead trees or the Web, that has a regional focus or authoritative voice."

But the implicit conceit is that there is some shared Asian perspective that might replace the colonial one as "authoritative" and assert itself as a media proposition for some new entrepreneur. Many have tried—local media moguls in Japan, Thailand and even Hong Kong. But they fail time and again. Asiaweek, the weekly magazine that tried to be the postcolonial alternative

to the REVIEW, folded in 2001, and with much less gnashing of teeth from Asian readers. There was no "Asia for the Asians" to be had. The fact that Asia briefly had such an identity—one to which the REVIEW catered admirably—was a direct and fleeting result of the colonial project of postwar development. In the future, the REVIEW will be studied because it reflects the possibilities of a supranational identity in Asia that subsequent generations will find scarcely imaginable.

The colonial perspective provided the only possible authoritative outlook on the region because it alone had a sufficient breadth, liberality of spirit and insistence on minimal principles of good government that could unite elites into a common purpose. I risk the opprobrium of hundreds of Western and Western-influenced academics brandishing Edward Said's *Orientalism* to explain how the REVIEW was complicit in an imperial project. So be it. Because what may replace this unique period of shared understanding created by the colonial perspective is a return to a feudalism created by the postcolonial one—each to his own castle, there to nurse grievances and secret musings.

Will Asia's elites ever develop a renewed perspective on the region to replace the colonial one—which some aspiring media outlet might serve? Might a China-centered mentality silently envelop younger minds and become the basis for new media that provides a regional perspective now missing? This future is coming. Perhaps it should not be feared. If anything threatens the integration and peace of Asia more than China's rise it is the lack of shared values and perspectives among Asian elites. The REVIEW reflected and served, perhaps even abetted, such a perspective for 40 years during its glory days. Asia needs a new regional perspective to replace it.

The history of postwar Asia is a history of Western involvement, a fact much lamented by radical professors but one through which the region's institutions and economies grew. Alongside that was a set of readers, local and expat, who were participants in this essentially colonial project. As newly democratic and developed Asian countries graduated to developed-world status, their younger generations had no need for this perspective. If they want a Western perspective they turn to coverage of Asia in Western publications such as *The Wall Street Journal*, the *Economist*, or the *Financial Times*. If not, they turn to their local media. The Asia of the REVIEW is today found only in the Foreign Correspondents' Club of Hong Kong.

The FCC is a fitting place to end. Its main bar was a crossroads for Asia and its membership a white pages of REVIEW alumni. The old cold storage building it still occupies—holding milk in early days and cadavers in World War II—is a gem of colonial architecture. Its reporter members fled from communism in China in 1949, along with a million others. REVIEW journalists headed the FCC on several occasions. The Club continues as a club, but less and less as a cultural milieu.

The FCC makes several appearances in *The Honourable Schoolboy*. At the end, old Craw reappears at the main bar "looking much aged and soberly dressed." Overhearing some members saying how things are changing and how the Club should change too, he stomps out, "tears pouring down his face." "Don't change anything," he shouts, shaking his stick in fury. "The old order changeth not, let it all run on."

The assembled, younger members smile sympathetically. Old Craw contributed much. But his time is done. "Past it, they agreed, as the doors closed on him. Poor fellow." ■



Nurturing the Chinese Economy

by Joe Studwell

THE LIFE OF a contemporary China-watcher may be measured in "prognosis phases." These last about five years and come in only two flavors: ebullient and cataclysmic. In my brief involvement with China, I have so far experienced three prognosis phases: "China Takes Over the World I (1992-1997)", "Oh My God, It's a Disaster I (1998-2002)" and "China Takes Over the World II (2003-2008)." There are now strong indications that we are entering "Oh My God, It's a Disaster II (2009-?)."

The worriers are agonizing over three inter-related fronts. The first is that China is experiencing the beginnings of an "asset bubble," involving uncontrolled speculation in property and stocks. The culprit here is loose monetary policy and the vast fiscal stimulus program being pursued by the Chinese government to maintain brisk growth in the midst of a worldwide financial crisis. A reinstated currency peg to the U.S. dollar, the argument runs, exacerbates the asset-bubble risk because it links China, inappropriately, to U.S. monetary policy and very low interest rates.

Robert Zoellick, the World Bank president, has flagged the risk of asset bubbles in China and Asia because other countries are following similar monetary policies. The region's best-known horror story in this respect is Japan between 1985-87, when the increase in property and stock values was 25 times the increase in wages and salaries. At the time, Japan had nine out of 10 of the world's biggest banks by assets and, in 1988, the Tokyo stock market became 50% bigger by capitalization than New York's.

Today, Chinese real-estate prices are rising quickly and China's A-share stock-market capitalization overtook Tokyo to become second in the world to New York in July. The country's Big Four banks are presently in the top 25 in the world by assets (a comparison with the 1980s is not really fair, because today's global banking system is much more consolidated.)

The second area of concern is nonperforming loans in the Chinese banking system. Jonathan Anderson wrote in the

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November 2009 issue of the *REVIEW* that the pace of bank lending in China in the past year has been “crazed,” implying that loan quality cannot be good. In the first 10 months of 2009, Chinese banks extended a record 8.9 trillion yuan (\$1.3 trillion) in loans, up by 5.3 trillion yuan (\$776 billion) from the same period a year earlier. This came as the Chinese government quietly began rolling over—in a move that went almost unremarked—the 10-year bonds that it issued in 1999 in order to write off the vast amount of NPLs generated prior to that date.

Third, there are accentuated worries about the exchange rate. These come in two conflicting versions. The first says that by repegging to a falling American dollar, Beijing is guaranteeing an asset bubble through dangerously loose monetary policy. The second view concentrates on the perceived impossibility of sustaining a grossly undervalued currency and says that China will be forced to revalue upwards—witness rising pressure from special import tariffs being instituted in the United States and the European Union. This view holds that it will be the “wealth effect” of a revalued currency (Chinese people being richer in global terms) that will lead to an asset bubble.

A corollary of this school of thought is that China’s public finances will take an enormous hit by virtue of the country’s \$2.5 trillion in foreign-exchange assets, most of which are in U.S. dollar holdings, because these will be revalued downwards in yuan terms. This would constitute a kind of giant back-tax payment for years of “currency manipulation.”

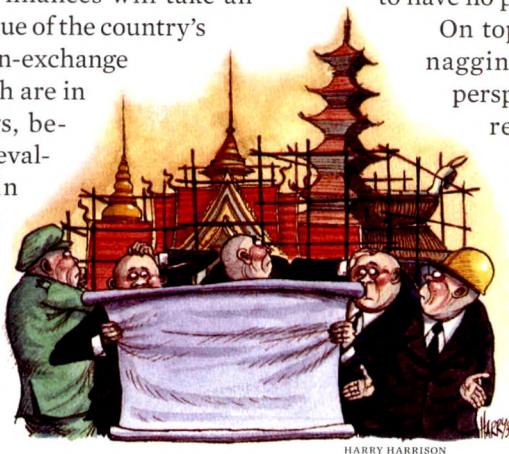
The most striking point here is

that it is unlikely that both arguments about the yuan are correct. There is another Japan analogy: the debate about whether it was loose monetary policy in the late 1980s or the fact that the yen more than doubled in value against the dollar from 1985–88 that was responsible for that country’s bubble. (All indications show that the current Chinese government goes for the yen doubling explanation.)

Clearly, worries abound. Ten years ago, I would have signed up to “Oh My God, It’s a Disaster II” and marshaled the same macro data that everyone else is playing with to try to prove the point. But since I am already in my fourth prognosis phase, and may have another six to go before retirement, I wonder if this game is worth the candle.

The macro data we employ are incredibly fungible. On the one hand, what is the real quality of the GDP growth being recorded in China? To what extent does it reflect an economy that is genuinely developing? On the other, the share of Chinese bank debt that turns bad depends on a host of imponderables, not least ones in the wider world economy. And the real degree of yuan undervaluation? Exchange rates constitute the least understood subject in macroeconomics (as reflected in the fact that academic studies show exchange-rate futures to have no predictive value).

On top of all this, there is a nagging sense of historical perspective that comes with reflection on development experiences elsewhere in the East Asian region. Perhaps the most potent example, South Korea, broke all the macroeconomic rules: massive foreign debt, serial domestic banking



HARRY HARRISON

crises, high inflation. And yet it is one of the world's few true developmental success stories, with current GDP per capita around \$20,000 (six times that of China's).

The lesson is that we need a more comparative, more historical and more institutional approach to judging the present condition of the Chinese economy. One way to begin is by reflecting on the realities of post-World War II developmental success stories.

A 2008 World Bank study led by economics Nobel laureate Michael Spence shows that since 1950, 13 economies managed to grow at 7% or faster for at least 25 years. However, once one strips out three offshore financial centers and ports that are not fair points of comparison (Hong Kong, Singapore, Malta), an oil field and an enormous diamond mine with small populations (Oman, Botswana), there are really only eight case studies of interest. Of these, four economies grew and then stalled: Indonesia, Thailand, Malaysia and, earlier, Brazil. One is a huge, fast-growing, lower middle-income state where everyone is just now trying to decide whether it will keep growing or stall: China. And the last three economies define the true gold standard of development: Japan, Korea and Taiwan.

These three provide a benchmark against which the current condition of the Chinese economy can be assessed. The key is to make an institutional comparison of what repeatedly prove to be the three critical areas of policy in developing economies: land, finance and industry.

In terms of land policy, there is a big dotted line to be drawn in Asia which separates Japan, Korea, Taiwan and China from the rest of the region. In the first three locations, almost all agricultural land was sub-

divided under American supervision into household plots in the wake of World War II. The same thing occurred in China as a result of a murderous campaign against landlords by the Communist Party after 1949 and then a transition to household farming in the late 1970s. South and Southeast Asia, by contrast, are a story of patchy and largely ineffectual land reform attempts which have meant that the region is home to tens of millions of landless and capital-less peasants. Simply put, there exists an Asia where everybody has a shot at development and an Asia where many people do not.

Since the mid-1990s, China has looked like the poor relative of the land reform club. Unlike Japan, Korea and Taiwan, which maintained a strong political commitment to relative in-

come equality between rural and urban dwellers, China has shown itself willing to accept far higher levels of rural-urban income inequality. This trend was reinforced in 2001 when China repealed much of the tariff protection it afforded farmers as part of its accession to the World Trade Organization. Chinese communists, brought to power by a rural revolution, have moved to the cities and no longer care about peasants. Judged by the Japan-Korea-Taiwan yardstick and a substantial amount of academic research, their newfound tolerance for relative rural poverty will be bad for development.

As the world turns more bearish on China, however, there are clear signs of a political change of heart. Hu Jintao, the Chinese president, is driving a series of policies and experiments which would give farmers actual ownership of their land (previously all land belonged to the state, with peasants granted farming rights.)

The problem in China is that public-sector banks are largely funding public-sector corporations.

Farmers can then mortgage their land or sell it and use the capital elsewhere. The experiment is enormously risky, which is why China has not tried it before.

When land reform goes wrong—as, for instance, in large parts of the Philippines since the end of the Marcos era—farmers either blow their capital or are swindled and end up as landless wage laborers. This could happen on a large scale in China, but the timing of the reform—after 30 years of farmers working and learning the value of their land—is more propitious than with the shotgun reforms attempted on some of the latifundia and plantations of Southeast Asia. In addition to land privatization, the Chinese government began the first phase of instituting rural pension coverage on Oct. 1, 2009. This affected one in ten Chinese counties.

For the first time in a while, a trip to the Chinese countryside can be a source of optimism. With the majority of the Chinese population still living in rural areas, it is worth reflecting on just how significant this fact is. Land distribution in Asia has been a critical determinant of developmental outcomes because, done right, it leads to the best kind of growth—the bottom-up kind. For all its problems, China today is on the right side of the historical divide in land distribution.

In the financial realm, China's big policy choices have also been the right ones. The country switched from a grossly overvalued exchange rate in the late 1970s to an undervalued one today, and has maintained its capital controls. The Spence report cited above points to an historic truth that one rarely hears repeated: "None of the sustained, high-growth cases that we know about were particularly quick to open their capital accounts." The report could have gone further. Among its 13 case studies, it is notable that the fast growth economies which stalled—Brazil, Thailand, Malaysia, Indonesia—were ones

which surrendered capital controls relatively early in their development compared with the success stories.

China has resisted, and is resisting, calls to dismantle its capital controls. This is entirely sensible and a reason to believe that the economy can continue to grow quickly. The problem with the financial sector in China is not that the capital account is protected, but that the country is the first fast-growth economy in Asia to pair a state-owned banking system with a state-dominated industrial structure. The risk is that this wastes capital.

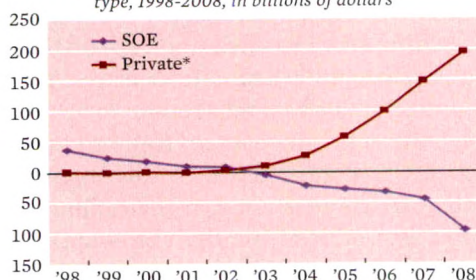
Taiwan kept most of its banks as publicly owned entities during its rise to prosperity. Korea bounced its banking sector back and forth between public and private ownership. What mattered in both cases was that the Taiwanese and Korean governments avoided the "capture" of banks by narrow corporate interests. The opposite happened in Southeast Asia, where banks were privately held. In Indonesia and Thailand, and to a lesser extent in Malaysia, leading businesses were able to operate in-house financial institutions which they plundered. This process led to taxpayer rescues and contributed heavily to the stalling of development in those countries.

There is nothing wrong with China's determination to avoid bank capture, though broad-based private-sector ownership can achieve this just as well as public ownership. The problem in China is that public-sector banks are largely funding public-sector corporations, in what constitutes a rather cozy arrangement. When the state ran the banks in Taiwan and Korea, most of the money went to private firms subject to real commercial discipline.

This is not the case in China. If anything, the situation is becoming more risky. The term *guojin mintui*—meaning that the state advances while the private sector retreats—is the latest fashionable Chinese expression to describe the in-

INVERTED RELATIONSHIPS

Trade balance of Chinese firms by enterprise ownership type, 1998-2008, in billions of dollars



*PRIVATE IS SHOWN IN CHINESE DATA AS THE RESIDUAL AFTER ALL STATE-OWNED, COLLECTIVE AND FOREIGN-INVESTED FIRMS HAVE BEEN SUBTRACTED

SOURCE: CHINA GENERAL ADMINISTRATION OF CUSTOMS

creasing dominance of state industrial interests in recent years.

There is no theoretical reason why state-owned banks funding large, state-owned corporations cannot be the basis for developmental success. The rise of the French industrial economy after World War II is the obvious historical example. But few people would argue that the bureaucratic capacity of China—which claims to be centralized but in fact is widely diffused—measures up to that of France, western Europe's most centralized state with a long tradition of national economic management. For China, the risks of state banks funding state corporations are considerable.

The risk can be ameliorated via a third, vital area of policy choice: industrial strategy. Here, academics argue interminably whether—with respect to Japan, Korea and Taiwan—it was the market or the plan that made the difference. The answer, when we consider the stalled fast-growth economies of Southeast Asia, is that it was a combination of the two. In the three case studies, government heaped bureaucratic and financial largesse on chosen firms, but then made them prove their worth by selling their output in export markets. It was this “export discipline” that linked industrial planning to the free market. In Southeast Asia, by contrast, governments

indulged entrepreneurs who ran power stations, mobile telephone systems, toll roads, and other domestic services. Manufacturing exports were left to foreign multinational companies.

China's choice appears to be to back state manufacturers, but not to subject them to consistent export discipline. The graph shows this in aggregate terms. China's (favored) state enterprises are net importers, and rapidly becoming bigger net importers. Net exports are generated by (unfavored) private domestic firms and by foreign firms.

To understand this at a micro level, consider the manufacture of wind turbines for electricity generation. In the span of a few years, the sector has become dominated by a handful of state-owned firms, much to the chagrin of their international competitors. These companies are generously financed by state banks and have already built considerable manufacturing overcapacity. The wind-turbine makers show little interest in exporting their surplus production. In order to do so, they would have to upgrade their products to achieve international quality certification (a prerequisite for the international project financing that would pay for their turbines). In China they can compete for government wind-farm projects that require no certification.

Government, in short, is failing to implement export discipline for the country's most favored companies. State companies that export tend to be the ones making commodity products such as steel, rather than the ones facing greater technological competition.

Overall, the condition of the Chinese economy is not so bad in comparative institutional terms. Growth is broad-based as a result of equitable land distribution, and government is reapplying itself to issues of rural development. In general, the nation's wealth is managed by the state to developmental ends and protected by cap-

ital controls which, though increasingly porous, still work. The problems lie more in the nexus between financial and industrial policy, specifically as they relate to China's capacity to upgrade technologically. These problems are still serious enough to put China in the category of developing countries that "get stuck."

What the Chinese government needs to do first and foremost is resume upward revaluation of the yuan before trade relations with the U.S. and Europe turn nasty, something which could happen in the next year. The trade disadvantage that comes with a rising currency should be offset by Chinese banks focusing more of their attention on public- and private-sector domestic firms which can and do compete internationally.

This is the major lesson missed from Japanese, Korean and Taiwanese development: Let the international marketplace tell you who to support, not past relations or ideological prejudices about ownership. In addition to favoring firms that compete internationally, the Chinese government needs to be much more ruthless about withdrawing support—and making provincial governments withdraw support—from firms that do not.

It is a myth that Japan, Korea and Taiwan developed solely by "picking winners"; in reality, much of their success came from culling losers. In Korea from the 1950s to the 1980s, for instance, only about half the cohort of largest *chaebol* survived from one decade to the next; there was far more corporate turnover than is usually realized.

If the above sounds like an invitation for China to undertake a modest currency adjustment and then continue with interventionist trade policy, to a significant ex-

tent it is. Development is not the pure win-win experience that some economists like to pretend, and it never has been. The Spence report states this final, awful truth: "Developing countries cannot grow without the support of the advanced economies. In particular, they need access to the open global trading system. They may also need some latitude to promote their exports until their economies have matured and their competitive position has improved." In other words, developing countries need more market access in return for less market access.

Herein lies the fourth vital ingredient that characterized the development of Japan, Korea and Taiwan. Each was indulged and supported by the United States, and to a much lesser extent Europe, as it rose to prosperity. In this respect, any discussion of the Chinese economic outlook is as much a political as an economic one. China is unlikely to be a genuine development success story unless the West indulges its need for a somewhat (but less) undervalued currency and for continued capital controls.

It might be better to be more open and public about this. Such an approach would allow the developed countries to debate what they expect from China more candidly. Western nations may conclude that China's minimal progress on human rights and its improving but patchy cooperation in international political affairs and climate change is not enough. In that case, it is not illogical for the rich world to decide that it will not meet its side of the developmental bargain. But we should make no mistake: peaceful economic development does require political bargains. The notion that politics and economics can be separated is the biggest myth of all. ■



Thaksin's Deal With The Khmer 'Enemy'

By cozying up to the Cambodian government, Thaksin Shinawatra is edging closer to a return to his motherland. Will his plan backfire and alienate him from Thais, or just reinforce existing divisions?

Thaksin's Cambodian Gambit

by Pasuk Phongpaichit and
Chris Baker

THAKSIN SHINAWATRA'S appointment as an economic adviser to Cambodia and his short visit to Phnom Penh to convey his thanks to Hun Sen have revived Thailand's political divisions with a vengeance. In November, the royalist Yellow Shirts staged their most prominent rally in almost a year. The pro-Thaksin Red Shirts announced a series of rallies to fell the government. At the Yellow Shirt gathering, a speaker called for the beheading of Hun Sen, Thaksin Shinawatra and ex-premier Chavalit Yongchaiyuth.

Strikingly, the reactions to Mr. Thaksin's Cambodian gambit among the press and political commentators were painted in a palette of only black and white. The anti-Thaksin camp howled that he was guilty of

treason for assisting an enemy country, and also guilty of *lèse majesté* for remarks about the royal succession in an interview with *The Times*. Thaksin boosters portrayed the visit to Cambodia as a brilliant maneuver by the fugitive former prime minister to regain prominence. In reality, these events are shrouded in murky shades of grey. But few want to see it that way.

The Yellow Shirts lost support after the closure of two Bangkok airports in November 2008 and lost momentum when the pro-Thaksin government was felled immediately after. The attempted assassination in April of Sondhi Limthongkul, the movement's most popular and provocative orator, prompted speculation that establishment patrons had decided the movement had outlived its usefulness. Then there was internal disagreement over the proposal to found a new political party, and some sense of anticlimax when the

Mr. Baker and Ms. Pasuk are the authors of *Thaksin* (2009, Silkworm Books and the University of Washington Press).

New Politics Party was launched in June with a caretaker leader who had limited appeal to the movement's core middle-class audience. By mid-2009, the profits of Mr. Sondhi's media empire, which depended heavily on Yellow Shirt fervor, were reportedly declining. After much hesitation, Mr. Sondhi decided to take the helm at the New Politics Party.

Mr. Thaksin's Cambodian trip has revived the Yellow movement's fortunes. Its November 15 rally was its most eye-catching in almost a year. But the Yellows have returned to their old formula of demonizing Mr. Thaksin, claiming to defend monarchy and nation, and threatening violence. There is no sign of any "new politics" to appeal to the movement's largely urban middle-class supporters.

The Red Shirts claim to be defending democracy. They contend the current coalition government has no democratic legitimacy because it was formed by political horse-trading heavily influenced by the military, rather than being installed by election. Their agenda is to bring down the coalition, win the ensuing election, undo the constitutional changes made by the junta and bring back Mr. Thaksin.

Since riots in April, the Red Shirts have pursued a low-key, long-term strategy to retain popularity that will eventually convert into electoral weight. Mr. Thaksin is still central to the movement's appeal. From exile overseas, he is constantly present via phone, Twitter, and video link. The movement has spawned a satellite-television channel, a Web site and a clutch of print publications. In recent months, the Red Shirts announced a "showdown" rally in Bangkok to bring the government down. Leaders ambitiously promised a million people. Government was frightened enough to invoke the Internal Security Act. The rally has since been postponed, at least until after the king's birthday on December 5.

The simple slogans of the rallies—"De-

fend the Monarchy" or "Defend Democracy"—are façades beneath which lie more complex and murky issues.

Mr. Thaksin's motivations seem to be an intricate blend of politics, face and money. He continues to command widespread mass support, and claims to feel a responsibility toward this following. Being ousted by a military coup and demonized by right-wing extremists have cast him as a hero of popular democracy, whether he deserves that cachet or not. He now likes to describe himself as a "revolutionary," and was delighted when Hun Sen compared him to Aung San Suu Kyi.

But from the start, his political career has been inseparable from his pursuit of exceptional wealth. The rhythms of his recent actions from exile are tied to the fate of his family assets. After the 2006 coup, the government froze more than \$2 billion of Mr. Thaksin's funds. Prosecutors prepared a case to seize those assets on grounds they were acquired by abuse of power. Curiously, the pro-Thaksin Red Shirt demonstrations which culminated in violence in April began immediately after that case was submitted to the court. Mr. Thaksin admitted the connection between agitation and the asset case in an interview with Figaro International immediately after the riots. Asked about his objectives, he first replied, "Democracy, symbol of liberty, equality and fraternity, like you, the French!" Then after a pause, he added, "It is also necessary that I recover my frozen assets."

Curiously again, the Cambodia gambit and the showdown rallies arose exactly as the Supreme Court moved toward judgment on this case. Representatives of Mr. Thaksin were rumored to be in contact with powerful figures to negotiate a compromise. A pro-Thaksin member of parliament told the press Mr. Thaksin was ready to call off the Red Shirt agitation if authorities dropped the asset case and revoked the

two-year jail sentence imposed on him last year. The judgment day on the asset case, originally announced as October 30, slid to a date in November, and then to some time before early January 2010.

This delay may not be in Mr. Thaksin's favor. In the last two weeks, the court has heard new evidence linking him to off-shore companies which owned major shares in his family business while he was premier. Many have long suspected that Mr. Thaksin retained hidden ownership, in contravention of laws on asset-holding by ministers. Shortly after the Shin Corp. sale, Korn Chatikavanij, a Democrat MP and former head of a finance firm, speculated that Mr. Thaksin still owned Winmark, a British Virgin Islands company that had a major holding in the family's property company, SC Asset. Mr. Korn also speculated that Winmark was the parking place for profits that Mr. Thaksin had made by speculation through foreknowledge of the baht flotation in the 1997 crisis. The Thai Securities and Exchange Commission, headed by an appointee of Mr. Thaksin while premier, investigated these allegations but claimed that information provided by its overseas counterparts was barred from public disclosure. However, the SEC and the police have now given evidence to the Supreme Court showing large movements of money between Winmark and bank accounts in the names of Mr. Thaksin and his wife. (Mr. Korn is currently Thailand's finance minister.)

Losing \$2 billion dollars would not sink Mr. Thaksin financially. He recently claimed he was down to his last hundred million dollars, even while flying around the world in a private jet buying interests in gold mines. Rough calculations of his known wealth suggest he still has a lot to spare.

The Cambodian debacle has also boosted the coalition-leading Democrat Party, and especially the prime minister, Abhisit

Vejjajiva. In the short term, his popularity ratings tripled and soared past those of Mr. Thaksin for the first time. Since the coalition was installed in December 2008, the Democrats and Mr. Abhisit have struggled to win support and recognition for their efforts. Though the Democrats form the meat of the governing coalition, they were overshadowed by the generals in the background and by their coalition partners who hold the balance of power in parliament. Mr. Abhisit seemed to wield less clout than Newin Chidchob, a politician from the northeast with a reputation for bid-fixing and vote-buying, whose defection from Mr. Thaksin's camp made the coalition possible.

While the Democrats promise clean government and Mr. Abhisit talks about reform, human rights and similar topics, the government has reverted to a familiar model of military influence and business intrigue. The Democrats can claim to have done a lot in one year, especially in the fields of education and the economy, but these have had little or no impact on their popularity. The party is freighted with a history of aligning itself with military, monarchy and bureaucracy, and being unresponsive to popular demands. Even now, the media campaigns showcasing their achievements come across as a patronizing. The sudden boost to Mr. Abhisit's popularity gives a glimpse of another possibility, though hardly a happy one. Sustaining nationalist-inspired support by prolonging the diplomatic spat with Cambodia will be difficult, damaging and dangerous.

Immediately after Mr. Thaksin's Cambodia gambit, General Sonthi Boonyaratkalin, leader of the September 2006 coup, announced he would lead the Matubhum Party, a small party recently revived. Some 30 current MPs are rumored to be interested in joining. The party's current platform focuses on solving the violence in the far South, but Gen. Sonthi's ambitions are

much broader. He first planned to enter politics in 2007, but hesitated. He offers himself as a figure of unity and reconciliation, but in truth is hoping that the urban middle class will want a “man on a white horse” to keep Mr. Thaksin and supporters at bay.

The social realities underlying political division are more complex than often portrayed. The gap between rich and poor is much wider in Thailand than in countries of comparable economic achievement, and Mr. Thaksin made the poor feel that politics might result in betterment for them. But the division is not a simple issue of poor against rich. Resentment at the great inequalities of power are also a factor. Mr.

Thaksin and the Red Shirts draw support not only from the poor but from many businessmen who resent bureaucratic power and corruption, a rising provincial middle class which resents the excessive domination of Bangkok and pro-democracy activists who oppose the resurgent power of the military and the strident conservatism of the Yellows. Though there is some hope that the political polarization will somehow fade if Mr. Thaksin magically disappears, or if another general on a white horse imposes unity, or if all emotions are subsumed in a period of national mourning—the solution will be neither quick nor easy. ■

No Love Lost Among Khmers and Thais

by Bertil Lintner

WHEN CAMBODIAN PRIME Minister Hun Sen appointed Thaksin Shinawatra as “economic adviser” to the Phnom Penh government, Thailand reacted strongly, canceling a 2001 memorandum of understanding on overlapping maritime boundaries. Diplomats from both countries have been recalled, and a Thai engineer working in Cambodia has been arrested and charged with spying. This is hardly just a “spat”—which is how the Thai media seems to treat the current standoff. But it also is not the most serious crisis in the history of Thai-Cambodian relations.

Despite sharing the same religion and a similar culture, Thailand and Cambodia have seldom been on good terms. Dissidents from one country have often sought refuge in the other. The Cambodians have never forgotten that they once ruled over a mighty empire including large parts of present-day northeastern Thailand and southern Vietnam. Some of Thailand’s most spectacular temples were built during this

time, among them Phnom Rung in Buri-rum, one of three Khmer-speaking provinces in Thailand. Another Khmer temple complex from the same era—the 11th century Prasat Preah Vihear, which the Thais call Prasat Khao Phra Viharn—lies right on Cambodia’s border with Thailand’s Sisaket province, and the ownership of that site has been the subject of a long-standing dispute between the two nations.

In the late 18th century, the first king of the new Chakri dynasty in Thailand, then known as Siam, conquered Battambang and Siem Reap—including the holiest of Cambodian temples complexes, Angkor Wat. In the east, Vietnamese rulers took over the Mekong river delta region. What was left of Cambodia was placed under French “protection” in 1863. With French help, Cambodia regained Battambang and Siem Reap in 1907.

When World War II broke out, Thailand sided with Japan and attacked Cambodia.

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Under the terms of a peace treaty brokered by Japan, Thailand again seized control over Battambang and Siem Reap—excluding the area around Angkor Wat, which remained part of the then largely defunct French Indochina.

Thailand was forced to relinquish control of the two provinces in 1946, and, perhaps fearful of the French, did not try to occupy Preah Vihear, which is located on the top of a steep cliff with easy access from the Thai side—a drop of several hundred meters to the Cambodian lowlands beneath the main temple. But as soon as Cambodia became independent in 1953, Thai troops moved in and seized control of Preah Vihear.

At the same time, the Thais did what they could to weaken the regime of Cambodia's then strongman, Prince Norodom Sihanouk. As Cambodia scholars Justin Corfield and Laura Summers point out in their "historical dictionary" of Cambodia, "acting on the principle that 'the enemy of my enemy is my friend', Thailand's then prime minister and dictator, Marshal Sarit Thanarat, lent his support to ... efforts to destabilize Sihanouk's state."

These forces also got backing from the United States' Central Intelligence Agency, which thought Prince Sihanouk was leaning too much toward China and the Soviet Union. The leader of the 1959 so-called Bangkok Plot against Sihanouk was Sam Sary, a Cambodian politician and former diplomat. He was killed, most probably by agents of the Cambodian military, around 1961—and his son, Sam Rainsy, is now the main opponent of Hun Sen's government.

Neither did the Cambodians hesitate to provide shelter for fugitives from Thailand. When Sarit seized power in a coup d'état in 1957, Field Marshal Phibun Songkhram, the ousted ex-strongman, fled by car and boat to Cambodia and on to Japan. In 1961, Cambodia severed diplomatic relations with Thailand because of the Bangkok Plot—

and the dispute over Preah Vihear.

A complaint was also lodged with the International Court of Justice in The Hague, which, on June 15, 1962, ruled that Preah Vihear belonged to Cambodia. The Thai army was prepared to go to war over the issue, but the king intervened and told them to respect the decision of the court.

Sihanouk was one of the first to climb the cliffs of Preah Vihear to make an offering to Buddhist monks in celebration of the victory in The Hague. But the Thai military never forgave him for humiliating them internationally. Support for various Cambodian rightist opposition groups continued until Sihanouk was overthrown in 1970.

Following the victory of the communist Khmer Rouge in 1975, insurgents from northeastern units of the Communist Party of Thailand set up bases in Cambodia. A mixed force of CPT and the Khmer Rouge launched several raids across the border into Thailand. Those only came to a halt when the Khmer Rouge's main supporter, China, intervened.

When Vietnamese forces ousted the Khmer Rouge in January 1979, its entire leadership fled to Thailand. The Vietnamese-installed regime to which Hun Sen belonged, first as the world's youngest foreign minister and later as prime minister, had to face a united front of the Khmer Rouge, Sihanouk royalists and noncommunist forces. In the decades-long war that ensued, much aid came from Thailand to support the antigovernment forces.

The war came to an end after the United Nations intervened, and general elections were held in 1993. The Royalist FUNCINPEC won 45% of the vote, and Hun Sen's former communist party, now renamed the Cambodian People's Party, came second. A fragile coalition was formed and lasted until July 1997 when Hun Sen launched a bloody coup, ousting the sitting prime minister. Two days of fighting left at least 58 people dead and hundreds wounded.

IT IS NOT clear when Mr. Thaksin first befriended Hun Sen, but, somewhat ironically, it could have been in the wake of anti-Thai riots that rocked Phnom Penh in January 2003. The Cambodian press reported that a Thai actress said that Angkor Wat should belong to Thailand. Protesters set fire to the Thai embassy, and offices of Thai companies in the Cambodian capital were ransacked by angry mobs.

Among the Thai companies that saw their local offices destroyed was the telecom giant Shin Corp., founded by Mr. Thaksin and then owned by his family. Rather than seeking confrontation and compensation, Mr. Thaksin's people reportedly approached Hun Sen with conciliatory measures, including a set of golf clubs and other gifts.

Hun Sen's animosity toward Thailand goes back to the time when he was rejected by the United Nations, and the Thais and others supported armed resistance against his government in the 1980s. Yet he found a new "friend who is the enemy of my enemy" when Mr. Thaksin was overthrown in 2006. Meetings of Thaksin loyalists were held in Phnom Penh and, after their failed uprising in April this year, some of them fled into exile in Cambodia.

But this newfound friendship between Hun Sen's government and Mr. Thaksin and his followers could cost the latter dearly. Relations were already strained following Cambodia's request to have Preah Vihear listed as a World Heritage Site with the United Nations Educational, Scientific and Cultural Organization. This request was granted, but Thailand insisted that the border around the temple had not been clearly demarcated and that the Thais and the Cambodians should jointly administer the site. The conflict brought the two countries close to armed confrontation in July-August 2008, and it remains unresolved.

The Thais can be fiercely nationalistic,

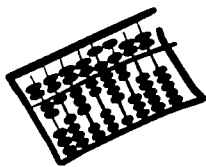
too, and following Mr. Thaksin's November visit to Cambodia, newspaper columnists and politicians accused him of being a traitor.

Memories of the past weigh heavily on the shoulders of both the Thais and the Cambodians—but, as in the past, outside powers may also have played their part. Political analysts in the region speculate that the Cambodian government would not have invited Mr. Thaksin and thus risk serious bilateral problems with an important neighbor without support from a more powerful ally. "Hun Sen has acted with unprecedented confidence," a diplomatic source said. "He must be very sure of himself and his position."

In yet another political turnaround, China, once the main supporter of the Khmer Rouge, and which Hun Sen described in a 1988 essay as the root of all evil in Cambodia, has become his main ally. Following the 1997 coup, Western countries temporarily suspended all aid to Cambodia—while China came to Hun Sen's rescue. Today, Beijing is a major donor and investor in Cambodia, particularly in the garment, agriculture, mining and tourism industries.

It is anybody's guess whether China had a hand in Cambodia's decision to invite Mr. Thaksin, but it is hardly any secret that he, apart from being a brash businessman, is a fourth-generation Chinese immigrant who moved Thailand closer to China during his premiership. Thailand's current prime minister, Mr. Thaksin's nemesis Abhisit Vejjajiva, is of Chinese ancestry as well, but he was born in England and is far more Westernized in his style and outlook.

If this speculation is correct, the "spat" between Thailand and Cambodia may have a regional fallout as well. Who said the Cold War is over—or that Thai-Cambodian relations are purely about historical baggage? ■



China's Family Planning Goes Awry

by Nicholas Eberstadt



CHINA'S "ONE CHILD Policy" is the mother of all social experiments in our modern era. Enforced by the power of a police state for three decades running, this astonishingly ambitious program aims to achieve nothing less than the wholesale transformation of childbearing patterns of the largest country in the world. Through locally determined birth targets, vigilant surveillance of prospective mothers, and state pressures ranging from the threat of job loss to crippling financial penalties and involuntary forced abortion, the policy has already driven China's birth rate far down—below the replacement level—in the name of accelerating the country's economic development.

By the lights of planners in Beijing, this program has been a glorious success. On the eve of the One Child Policy in 1978, China's total fertility rate (TFR) was on the order of three births per woman per lifetime; well above the replacement level of 2.1. There is some uncertainty about China's fertility levels today—not least because of the incentives to conceal

births—but there is no doubt that childbearing nationwide is now far below the replacement level, and has been for around two decades. Both the United Nations and the U.S. Census Bureau estimate China's current TFR at about 1.7 to 1.8; some put it at 1.6 or even lower. In China's largest metropolitan areas, such as Beijing, Shanghai and Tianjin, women today may be averaging less than one birth per lifetime.

But social experiments always have unintended consequences. In the case of China's One Child Policy, these consequences are now becoming evident, and are no less breathtaking in scale than the dreams entertained by the coercive visionaries in Beijing who set this scheme in motion. Inexorably—and by now inescapably—a host of new and unfamiliar demographic problems have arisen, all of which will plague China's next generation.

Mr. Eberstadt holds the Henry Wendt Chair in political economy at the American Enterprise Institute in Washington, D.C., and is senior adviser to the National Bureau of Asian Research. This essay draws upon remarks before the Tom Lantos Commission on Human Rights of the U.S. Congress last month.

These problems will compromise economic development, strain social harmony and place the traditional Chinese family structure under severe pressure; in fact, they could shake Chinese civilization to its very foundations.

The End of Labor Force Growth

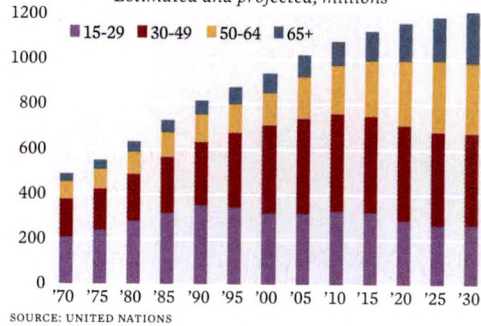
CHINA'S EXPLOSIVE ECONOMIC growth between 1979 and 2008 was historically unprecedented in pace, duration, and scale. A repeat performance over the coming generation is most unlikely for one simple reason: the demographic inputs that facilitated this amazing first act are no longer available.

Over the 1980-2005 generation, China's working-age population—defined here as the 15- to 64-year-old group—grew by about 2% per annum. Yet over the coming generation, China's prospective manpower growth rate is zero. By the “medium variant” projections of the United Nations Population Division (UNPD), the 15- to 64-year-old group will be roughly 25 million persons smaller in 2035 than it is today, and by 2035 it would be dropping at a tempo of about 0.7% per year. In fact, by the U.S. Census Bureau's reckonings, China's conventionally defined manpower will peak by 2016 and will thereafter commence an accelerating decline. Though these forecasts concern events far in the future, they are more than mere conjecture; virtually everyone who will be part of China's 15- to 64-year-old-group in the year 2024 is alive today. If current childbearing trajectories continue, by the UNPD's reckoning, each new generation will be at least 20% smaller than the one before it.

These numbers alone would augur ill for the continuation of rapid economic growth in China, but the situation is even more unfavorable when one considers the shifts in the composition of China's working-age population. In modern societies, it

NO REPEAT PERFORMANCES

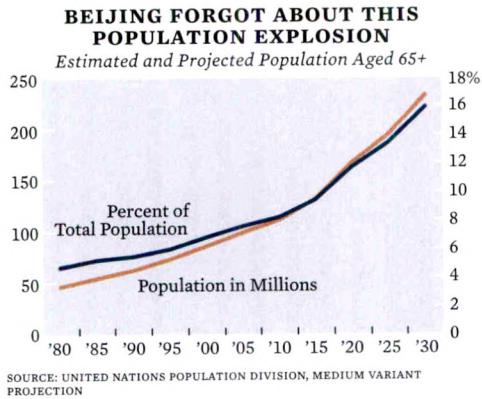
Adult population 15+ by age group: China, 1970-2030
Estimated and projected, millions



is the youngest cohorts of the labor force who have the best health, the highest levels of education, the most up-to-date technical skills—and thus the greatest potential to contribute to productivity. In China, however, this cohort has been shrinking for a generation, and stands to shrink still further, in both relative and absolute terms. In 1985, 15- to 29-year-olds accounted for 47% of China's working age population. Today that proportion is down to about 34% of the workforce. By Census Bureau projections, 20 years from now it will have fallen to just barely 26% of China's conventionally defined labor force.

The only reason China's working age population will not shrink more rapidly over the next few decades is because of an enormous coming wave of laborers in the 50- to 64-year-old age range. This group looks to swell by over 100 million between 2009 and 2029, growing from 22% of the working population to roughly 32%. The educational profile of this group is far more elementary than is generally appreciated: according to official Chinese census data, 47% of 50- to 64-year-olds have not completed primary schooling.

With this coming “age wave,” the structure of China's labor force will be inverted. A generation ago, there were nearly three times as many younger workers as older workers. Today there are half as many younger workers as older ones. Two de-



acades from now, the Census Bureau projects 120 older prospective workers for every 100 younger ones (at which point the situation may then stabilize, depending upon fertility trends). It's not exactly an ideal transformation in the labor force structure if one is aiming to maintain rapid rates of economic growth.

The situation might be easier for economic planners to cope with if China were still a nation with an abundance of underemployed labor. But policy makers in Beijing can no longer count on these once huge reserves. Instead, leading Chinese economists—among them Professor Cai Fang, director of the Institute of Population and Labor Economics at the Chinese Academy of Social Sciences—argue that the Chinese economy has already reached a turning point where those seemingly unlimited reserves of rural labor have actually been tapped out, and any future increase in demand for labor will only be supplied by increasing wages.

The Senior Tsunami

IT IS NOT only the Chinese workforce that will be aging over the coming generation. By any yardstick, Chinese society overall will be graying at a rapid pace. This is yet another unintended consequence of the population control program, since subreplacement fertility levels necessarily re-

duce the share of young people as a fraction of overall population.

According to the UNPD's projections, China's 65-plus age group currently numbers around 110 million. Over the coming generation, this group is set to rise to 280 million—growing at a pace of almost 3.8% per annum. By 2035, nearly one in five Chinese will be 65 or older, constituting a staggering 280 million senior citizens. The aging situation is likely to be even more acute in the Chinese countryside due to the ongoing migration of younger, rural-born workers to towns and cities. According to the projections of a team of demographers led by Professor Zeng Yi of Peking University, China's rural areas are probably already grayer than its cities—and the difference will grow starker every year. Prof. Zeng's team projects that by 2035 over one in four rural residents would be 65 or older.

What are the implications of this gray population explosion? For benchmarks, we might consider Japan, which ranks as the world's most aged society. In Japan today, the 65-plus proportion of the country's total population is just over 22%. In other words, rural China will be substantially more elderly than any population known to date within a generation.

Despite three decades of dizzying economic growth, rural China remains terribly poor. Average income levels in the Chinese countryside are reportedly less than one third as high as that of Chinese cities. Japan's per capita income level today is maybe 15 or 20 times higher than in rural China. One need not be a Sino-pessimist to suggest that Chinese society will have to cope with its coming age burden on vastly lower income levels than Japan or today's graying Western societies....

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Human Rights, Singaporean Style

by Garry Rodan



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HILE THERE HAS been a lull in the debate over "Asian values" since the 1997-98 Asian financial crisis, the concept never

disappeared. The development of a regional human-rights commission constitutes a fresh battleground where competing views are playing out. As in the past, the main interlocutors on the side of cultural relativism are Singaporean leaders and officials, but this time, opposing voices within Southeast Asia have grown louder and more self-confident.

Forming the Asian Inter-Governmental Commission on Human Rights (AICHR) has taken more than a decade of wrangling. Launched by the Association of Southeast Asian Nations in October, the commission is the result of a protracted and contentious process of compromise. Now the fledgling organization faces an uphill struggle to show it can make political and bureaucratic elites accountable on human rights.

The foundations were laid in the 1993 Bangkok Declaration and Joint Communiqué committing Asean to a coordinated approach to human rights. Ultimately, it was

the sustained international concern about brutal repression in Burma that convinced authoritarian regimes to accept the AICHR.

Though AICHR's initial "terms of reference" do not quite encompass the mission and powers advocated by more democratic forces within Asean—emphasizing education ahead of enforceable sanctions to protect human rights, and containing a raft of other limitations—the TOR will be reviewed every five years. That means the struggle to define AICHR has likely only just begun.

Governmental and nongovernmental actors seeking a fuller embrace of universal human rights have a new institutional mechanism, and attendant domestic and regional networks, to exploit. Yet AICHR also represents an ideal opportunity for authoritarian leaders in Southeast Asia to translate hitherto vague rhetoric about cultural and historical specificities of human rights in Asia into clear principles and mechanisms for their protection and advancement.

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AICHR has especially significant implications for Singapore's political and bureaucratic elite. Not only is Singapore the only non-Indochinese Asean member without a domestic human-rights commission, its elites have also been the principal champions for a "culturally sensitive" interpretation of human rights. If there is a genuine Asian alternative view on human rights, now is the time for these cultural relativists to concretely spell it out. For instance, as Jua-hwa Chen of Taiwan's Soochow University argues, the United Nations Declaration of Human Rights was always premised on the notion that its effective implementation required "culturally diverse interpretations to render them truly universal."

The other possibility is that the AICHR will call the Singapore school's bluff on human rights, exposing its opposition as rooted not in culture but politics. Early signs suggest this outcome. Singapore's leaders continue to spend more energy challenging or dismissing the universality of human rights than identifying and seeking to protect culturally and historically specific versions of those rights.

Why? The answer lies in the ruling People's Action Party's rejection of concepts of citizenship rights that are threatening to an acutely elitist authoritarianism and the restrictive nature and basis of political accountability that define the regime. PAP leaders frequently assert that the fault line between differing notions of human rights rests on balances between rights and responsibilities of individuals and between rights of individuals in the community. Yet the critical point of tension lies more in relationships between the state and citizens and the implied notion that the latter should be able to hold the

former accountable for protecting their rights.

The PAP has a narrow, parliamentary conception of political accountability, which might explain why the Singaporean government has not signed up to the International Covenant on Civil and Political Rights and appears to have little serious interest in rendering even a culturally relative notion of human rights operational. In the PAP view, its governance represents rule by meritocracy. Emphasis is thus on trust of the elite instead of checks and bal-

ances grounded in notions of citizens' political rights.

Importantly, Singapore's particular variant of state capitalism has fostered a high degree of cohesion of interests and ideology between political and

bureaucratic elites. This has reduced opportunities for intraelite conflict, exploited elsewhere by forces seeking wider political accountability reforms. For example, the establishment of SUHAKAM, the Human Rights Commission of Malaysia, was intended to appease domestic and international critics about the treatment of former Deputy Prime Minister Anwar Ibrahim. No such cracks in the de facto one-party state exist in Singapore.

The irony of Singapore chairing Asean when a regional human-rights commission was being developed prompted Singapore's Ambassador-at-Large Tommy Koh to publicly ask Minister Mentor Lee Kuan Yew in February 2008 if he thought the PAP might envisage such an institution as part of the evolution of the "Singaporean system of democracy." But according to Mr. Lee, "The ultimate objective is clean, corruption-free, capable, effective, meritocratic, fair government. As long as we remove malpractices, I don't see the need

*Singapore controls
human-rights activism
more effectively than
even authoritarian
China or Vietnam.*

for more political policing.”

As an alternative to a rights-based notion of politics, the PAP has developed institutions promoting cultural conceptions of citizenship, including the Group Representation Constituency system mandating guaranteed racial minority representation in Parliament of Malay, Indian and Eurasian Singaporeans. Ethnic and racial “balance” also permeates the thinking behind state-supported ethnic self-help organizations attempting to address issues of social inequality. The ideological point is to promote citizens’ political identities and understanding of social and economic inequalities through racial and cultural, rather than class, lenses.

The PAP also continues to develop mechanisms through which individuals and groups can submit policy-relevant ideas and administrative complaints, premised on technocratic notions of public policy that are consistent with the ideology of meritocracy. This ranges from the various activities of the state-controlled Reaching Everyone for Active Citizenry @ Home, or REACH, to the Nominated Members of Parliament system. The common objective of these culturalist and technocratic institutions is the creation of state-citizen relationships that bypass collective or individual rights-based political accountability.

Singapore Prime Minister Lee Hsien Loong contends that his government’s approach is about human-rights substance rather than form, thus “we make sure that people are fed, people are clothed, that they have good schools, they have equal opportunities, that they have access to government services which are clean efficient and not corrupt.” Yet the Singapore Constitution makes no mention of collective or individual socioeconomic rights or sociowelfare principles. Instead, the Singapore High Court ruled that “rights should be subjugated to executive-deter-

mined community interests.”

Nevertheless, AICHR has necessitated the domestic institutionalization of civil society consultation on human rights that hitherto didn’t exist in the city state. This is significant since links between international and local human-rights NGOs have long been more effectively blocked in Singapore than most other authoritarian regimes in the region, including contemporary Malaysia and Indonesia during the New Order period.

Singapore governments have ratified few of the nine core international human-rights treaties and their seven protocols in Asia. Unsigned treaties not only include the ICCPR, but also the Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment as well as the International Convention for the Protection of the Rights of All Migrant Workers and Members of Their Families. AICHR’s quinquennial TOR reviews may provide an incentive and a set of regional structures for sustained engagement by Singaporean activists on such treaties.

A Manila-based Working Group for an Asean Human Rights Mechanism was established in 1995, comprising regional representatives from government institutions, NGOs, parliamentary human-rights committees, representatives of government institutions and academia within the region. However, it wasn’t until December 2006 that a commitment to the establishment of an Interim Singapore Working Group was endorsed by relevant local NGOs.

Emerging out of this was MARUAH (Malay for “dignity”), which became the Singapore Working Committee for an Asean Human Rights Mechanism. MARUAH has been careful not to alarm the Singapore government. On its Web site, it says it “appreciates that human rights is still relatively new in the Singapore context. As such we intend to approach the issue of human rights at an appropriate pace, with a per-

(public-private-people) model built around partnerships with multiple stakeholders." It also states that "MARUAH will be mindful of the need for a nonpartisan stance on human rights."

Despite this innocuous language, MARUAH has cautioned against a toothless regional commission and prescribed measures to deal with noncompliance, replacing vague consensus-based decision-making processes with rules-based ones and unambiguously embracing human-rights universalism.

Migrant workers constitute one aspect of human-rights advocacy where incorporation of Singaporean activists into regional networks might be significant. A 2005 Human Rights Watch report entitled "Maid to Order: Ending Abuses Against Migrant Domestic Workers in Singapore" highlighted that at least 147 maids have died in Singapore from workplace accidents or suicide since 1999—most by jumping or falling from residential buildings.

Separately, in the construction and shipyard industries, there have been complaints from migrant workers of salaries withheld for months, employees forced to work excessive hours (including 24-hour shifts), denial of rest days, threats of repatriation by employers for questioning contract violations, unauthorized salary deductions and a range of other violations of Singaporean law. The changes in September by the Ministry of Manpower to employer security-bond conditions and medical-insurance requirements acknowledge some of these problems.

Significantly, MARUAH's AICHR recommendations include calls for Asean countries to accede to the Convention on the Protection of All Rights of All Migrant Workers and Members of their Families; for the adoption of working environment standards that are no lower than the International Labour Standards; and for the Asean Commission on Migrant Workers to

function independently of the AICHR, at least until the TOR have been sufficiently strengthened.

AICHR thus generates a glimmer of hope that new channels of engagement could facilitate incremental change in government views on protecting human rights in Singapore. However, official reaction to a 72-page report in July 2008 by the International Bar Association Human Rights Institute indicates how entrenched those views are.

IBAHRI expressed concern that, "despite many positive achievements, the Singapore government is currently failing to meet established international standards in these areas," pointing out that Singapore is bound by international customary law protections of freedom of expression—regardless of not having ratified the ICCPR. It also asserted that, as a member state of the United Nations, Singapore is bound by the U.N. Charter to respect fundamental human rights which could be interpreted to equate with Article 19 of the UNDHR guaranteeing freedom of expression.

Singapore officials promptly invoked familiar notions of an East-West cultural divide to dismiss the report. The Ministry of Law contended: "Human-rights groups in IBAHRI have closed ranks with other Western human-rights NGOs to prescribe for Singapore and all new countries, especially China, Western norms of liberal democracy as the only way to bring stability and prosperity. They believe that free market policies cannot succeed without Western liberal democracy, and it is their mission to make other societies adopt the Western model."

Minister Mentor Lee not only echoed this stark choice of models but linked criticisms of the IBAHRI report to a larger political project, claiming, "There is a conspiracy to do us in. Why? ... They see us as a threat." The threat, according to Mr. Lee, stems from the interest shown by

Russia and China in studying Singapore's success.

Reiterating a longstanding refrain, the Ministry of Law subsequently issued an official statement, saying, "Human rights are interpreted and implemented according to specific histories, cultures and circumstances of each country." Meanwhile, exactly how universal principles of human rights might be translated with cultural, social or historical sensitivity remained unexplored. The substitute for this was assertions about how existing approaches to social, political and economic development brought substantive benefits to Singaporeans.

Ironically, while delivering the keynote address at the 2007 IBA conference in Singapore, then Minister of Law S. Jayakumar claimed there is "a core set of fundamental principles undergirding the rule of law that should exist in every society." This included an independent judiciary; the right not to be arbitrarily arrested and when arrested; the expectation of a fair trial; free and fair elections so that people can change the government of the day; and the right to personal safety and security. However, it is precisely in response to scrutiny over whether such fundamental principles operate in Singapore that officials denounce human-rights universalism.

Any doubt that the IBAHRI report only emboldened Singapore's political leaders in their resolve to consolidate rather than re-evaluate the impact of city-state institutions on civil and political rights appears to have been erased with amendments to the Public Order Act in early 2009. POA changes include the power of police officers to order people to move on from a particular place for up to 24 hours, to stop a person filming law-enforcement activities and unlawful public events, and a requirement for property owners to take reasonable action

to prevent illegal assemblies and processions from taking place on their property when they are instructed by police.

These powers have implications for the Singapore Democratic Party-led civil disobedience campaign against legal and administrative constraints to political expression and assembly. This campaign has successfully exploited high profile international meetings in Singapore to highlight such constraints, uploading vivid images of police action onto the Internet for global audiences.

Two fundamental obstacles stand in the way of Singapore's leaders developing a thoughtful set of principles to concretely guide protection of universal human rights. First, such principles might compromise the political utility of essentialist ideas currently harnessed to restrict the nature and arenas of political conflict and competition. Second, they could threaten the regime narrative that Singapore is a meritocracy and must remain so to survive. The idea of universal human rights entails a different concept of citizenship to that preferred by the PAP—one which would potentially subject the elite to more imposing institutions of political accountability.

Differences within Asean over AICHR have already exposed the flawed concept of an East-West divide on human rights. The question now is whether AICHR might provide a catalyst for domestic challenges to cultural relativism within Singapore. Human-rights activism has been more effectively contained in the city-state than even authoritarian China or Vietnam.

Certainly, with human rights now enjoying institutional regional legitimacy through AICHR, persistent PAP recourse to hackneyed slogans about "Western human rights" will contribute nothing to the protection of human rights. That gives its domestic critics another opening to exploit. ■



Bullets to Ballots: Aceh in 2009

by Ben Hillman



FIVE YEARS AFTER the devastating Indian Ocean tsunami of Dec. 26, 2004, little trace of the disaster remains. The Reconstruction and Rehabilitation Agency for Aceh and Nias (BRR) wound up operations in May, and policy makers have shifted attention to the Indonesian province's longer-term development challenges.

Aceh's future progress now depends on recovery from a different type of crisis—the three-decades-long civil war between the Free Aceh Movement (GAM) and the government of Indonesia that was still raging when the tsunami struck. By shifting the order of needs and placing the province under the international spotlight, the tsunami had a catalytic effect on peace negotiations. During the first few months of tsunami recovery work, a political solution to the conflict began to look possible. At talks brokered by former Finnish President Martti Ahtisari, GAM indicated willingness, for the first time, to abandon separatist demands in return for greater autonomy and a role in governing the province.

But peace talks nearly collapsed over

how the former rebels would be given a role in governing the province. Government negotiators offered to appoint rebels to senior local government posts and suggested that former rebels run as national party candidates in local elections. But GAM leaders demanded the right to form their own local political party in Aceh. This was politically very tricky for a country with a historical aversion to local political parties; antipathy harks back to the 1950s when regional parties were blamed for the collapse of parliamentary democracy and the rise of strongman authoritarianism. Since Indonesia's return to democracy in 1999, only avowed national parties have been allowed to contest elections. Political parties must maintain branches in 60% of the country's provinces and in 50% of districts and municipalities within those provinces. Local parties are prohibited from contesting even local elections.

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Not surprisingly, when details of GAM's demands became public, prominent politicians lined up to oppose any peace deal that would give the rebels their own party. Former President Megawati Sukarnoputri argued that local parties would become vehicles for separatism. Others warned that local parties in parliament could lead to a referendum for independence like in East Timor. A poll taken in July 2005 suggested that a majority of the public were also against local parties for Aceh.

In response, advocates of the local political party option argued that they were the only practical means of granting political rights to the former rebels, since GAM had no linkages to national parties. Eventually, Indonesia's Vice President Jusuf Kalla and President Susilo Bambang Yudhoyono recognized an historic opportunity to end the conflict and finally agreed to let GAM have their party.

The 2006 and 2009 Elections

THE PEACE AGREEMENT, signed in Helsinki on Aug. 15, 2005, promised that the Indonesian government would establish "political and legal conditions" for local political parties within a year. So that GAM could participate in the imminent elections for local heads of government, the Helsinki Memorandum (MOU) also enabled the Aceh people to nominate "independent" candidates. While this right has now been extended to all Indonesians, at the time only candidates nominated by national political parties were eligible to stand for election.

Interestingly, because GAM was not fielding candidates under a united party flag, a number of rivals emerged to contest the governorship. When a factional split developed between the former rebel's exiled leaders and fighters on the ground, some wondered whether GAM would ever unite as a single party. But the landslide

victory of former rebel Irwandi Yusuf on Dec. 9, 2006, became a rallying point for the movement.

While the election results were accepted as legitimate by all parties, the prospect of the former rebels continuing to amass political and economic power remained abhorrent to many of GAM's former enemies, including elements within the security forces and pro-Jakarta militias. Tensions boiled over when the "GAM Party" was launched in 2007 because the party had provocatively retained the name and symbols of the former separatist movement. Despite GAM's rebuttal that the acronym no longer meant "Free Aceh Movement," heat from Jakarta and a quiet word from international diplomats monitoring the peace convinced party leaders to change the party's name to the "Aceh Party."

The 2009 parliamentary elections would be the first major test for the new party and for its transition from fighting force to political force. The Aceh Party would contest 69 seats in the provincial legislature and up to 645 seats across the province's 23 districts and municipalities. Confident in its popular appeal, the party predicted it would win 80% of the vote.

In the months leading up to the elections, GAM's former enemies made their displeasure at the Aceh Party's rise increasingly felt. A series of violent attacks targeted the Party, which reported that seven of its members and officials were murdered during this period and a number of its branch offices were wrecked by grenade blasts. Elements within the armed forces and anti-GAM militias were thought to have been behind the attacks. A handful of suspects remain in detention in Jakarta, Medan and Aceh.

As the elections drew closer, the Aceh Party got up to some mischief of its own. It mobilized its network of former combatants to dominate the political space at the grass roots, and in some places aggressive-

ly prevented other parties from campaigning on their turf. Their bullying extended to Aceh's five other home-grown local parties, some of which they referred to as "traitors"—a term with troubling connotations.

Opponents accused the Aceh Party of political terrorism, and some claimed that they had received anonymous phone calls warning them not to attend the polling stations. SIRA, another local party and former GAM ally, accused Aceh Party members of stoning their supporters and kidnapping one of their election observers. On election day, extra troops were sent in to guard the polling stations, but many observers worried that this would only add fuel to the fire. Fortunately, such fears turned out to be misplaced. All parties respected the "no campaigning" period for three days before the election. Ultimately, large numbers of people turned out to vote, and the elections were considered by national and international observers to be largely free, fair and peaceful.

The Aftermath

AS WITH THE gubernatorial race in 2006, the results surprised many observers. Despite competition from 38 national parties and five other local parties, the Aceh Party won a landslide victory, picking up 33 out of 69 seats in the provincial legislature and the largest number of seats of any party in 14 out of 23 districts and municipalities. Even in Banda Aceh, the provincial capital, where voter preferences tend to be more diverse, the party came a close second. The election results testified to the wide appeal of GAM and widespread antipathy towards national political parties in Aceh. The only big winner among the national parties was the Democrat Party—the Aceh Party's unofficial ally.

A survey of 1,400 voters conducted by researchers from the Australian National University and Syiah Kuala University in

Aceh found the result to be an accurate reflection of voters' preferences and demonstrated that pre-election intimidation had little impact on the end result. The research, presented for the first time this month at a policy forum in Jakarta, also investigated reasons for the strong victory. While some voters were afraid the conflict could start up again if the Aceh Party lost, the study revealed that most Aceh Party supporters thought the party deserved a chance to govern.

The election results confirm that the central government's decision to allow local political parties in Aceh was the right one. It gave the people of Aceh a choice and it provided a legitimate vehicle for transforming the former rebels into politicians. The Indonesian government's shrewd decision has helped to consolidate peace and democracy in Aceh and serves as a model of conflict management for the rest of the world.

Aceh's stability and development now very much depends on the Aceh Party's performance in the coming years and the central government's attitude to Acehnese autonomy. Many institutional features of the autonomy arrangements have yet to be worked out. Center-local shares of oil and gas revenues were agreed in the MOU, but not the means by which these would be calculated. Aceh party leaders are now lobbying for specific regulations.

There are overlapping authorities on as many as 32 different key policy domains, and nearly 80% of the provincial budget still comes from Jakarta. The national government still controls land use, which prevents local government from allocating land to former fighters. Inaugurated in September, the Aceh Party's new and inexperienced legislators are still figuring out how to confront these issues. One thing is clear, however—party members seem to agree that Aceh's autonomy has yet to be fully realized.

Moving Forward

WHILE GAM HAS now transformed itself into a viable electoral machine, it remains unclear how it will manage itself as a parliamentary party. Party leaders claim not to be interested in national politics, but achievement of the party's policy goals all require changes to national laws. The Aceh Party will have to find ways to work with other parties in Aceh to negotiate their policy goals with Jakarta. Troublingly, some party members believe that the national Law on Governing Aceh should now be discarded in favor of local laws. Such comments risk playing into the hands of antagonists in Jakarta, who have long warned that powerful local parties will only demand more autonomy and ultimately a referendum on independence.

Architects of the peace agreement recognized the danger of local parties becoming isolated from national political life. To encourage local-national coalition building, the Law on Governing Aceh allowed members of local parties to join national parties. Unfortunately, the Law on Political Parties holds "dual membership" to be grounds for dismissal, which makes national party members reluctant to embrace local parties. Indeed, the Star Reform Party (PBR) and the National Awakening Party (PAN) have already sacked or recalled members from parliament after they joined local parties.

While the Aceh Party appeared to have forged an informal alliance with the national Democrat Party in the run-up to the April polls, it is uncertain whether such partnerships will survive outside of elections. The lack of a clear legal mechanism for coalition-building between political parties should be as much of a concern to Jakarta as it is for Aceh. If the Aceh Party is unable to make headway with some of its core policy goals, its position towards Jakarta could harden. The national gov-

ernment should ensure that communication channels remain open. Similarly, the Aceh Party should be careful not to get too carried away with its electoral mandate. Regardless of different views about the meaning of autonomy, full implementation of the Helsinki mou, including the establishment of a Truth and Reconciliation Commission, will require the cooperation of national authorities.

Whether the Aceh Party's electoral success in 2009 will translate into long-term political success depends on its performance during the next term until 2014. Despite an abundance of natural resources and billions of dollars invested in reconstruction, Aceh's economy has grown slowly. Many former combatants are jobless and have received little of the reintegration funds from local government and international donors. Levels of violent crime remain among the highest in Indonesia. Recently, some of that violence has targeted foreigners. Corruption, extortion and uncompetitive business practices by former combatants remain major impediments to investment. The Aceh Party will also have its hands full dealing with religious affairs. The outgoing parliament left behind new Sharia laws, which introduce, among other things, stoning as punishment for adultery. Aceh Party leaders are not supporters of this kind of Sharia law, but they must tread carefully to avoid falling out with powerful local ulama. They have a tough job ahead of them. The ANU-Syiah Kuala study found that voter loyalty to the party was weak. A majority of the respondents said they would not vote for the party again if it did not meet their expectations.

So far, the decision to allow local parties to contest elections in Aceh must be judged a success. The 2009 parliamentary elections represent an important milestone for the peace process, but the process of post-conflict integration has only just begun. ■



Why China's Charm Offensive Will Stall

by David Bandurski



BEIJING HAS BEEN actively courted in recent months as an indispensable partner in tackling a range of strategic issues, from the global economic crisis to Iran's nuclear ambitions. Despite China's growing influence in the world, however, Communist Party leaders have expressed concern over the country's deep deficit of "soft power." China may be able to throw its weight around, but the world seems impervious to its charm.

By injecting an estimated \$4 to \$6 billion into the global expansion of its state-controlled media, China hopes to raise its voice and persuade the world of its goodwill. But far from advancing China's prestige and attraction, this centralized "soft power" push suggests CCP leaders are wildly out of touch with the core issue compromising their credibility in the world—failure to allow free expression and the unfettered flow of information at home.

CCP leaders have instead identified the chief problem facing China's soft-power development as a prevailing Western bias in public opinion worldwide. They argue that

international "media giants"—including the major newswires and networks such as the BBC and CNN—have monopolized the manufacture of global information and disseminated the narrow interests and value orientations of the West.

Negative global media coverage of Tibetan protests in March 2008 still smarts with senior Chinese officials, who blame Western media outlets for framing the dominant narrative of state repression and turning a wave of international public opinion against China. A strongly worded treatise in the CCP journal *Qiushi* last August railed against Western media prejudices, noting coverage of Tibet in particular. "Chinese people have perhaps felt this [prejudice] more keenly than most. After the March 14 incident in Tibet last year, some media whipped up an anti-China storm, seriously misleading the international community."

The article wagged its finger at Western media for cloaking their bias in an empty

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defense of free speech. "Monopoly is the enemy of freedom," it said. "How can we talk about freedom of speech in the world when the eyes, ears and minds of people of all nations are in the grip of a handful of major Western media groups?"

This may have sounded like a clarion call for greater press freedom, but it was really an outburst of indignation over China's exclusion from the ranks of the world's elite agenda setters. China's CCP leadership has no interest in fostering greater media diversity. What it really seeks is to purchase its own place among the world's "media giants" in order to muster sufficient soft power to turn global public opinion in its favor.

But this is also about more than China's international reputation. CCP leaders now regard the advancing of China's "media soft power" overseas as crucial to maintaining order at home. Zheng Baowei, a communications scholar and consultant for China's government, wrote recently that the advance of modern communications technologies had resulted in a "butterfly effect," arguing that China's capacity to shape the agenda overseas is now critical to its ability to guide public opinion at home.

China's leaders are increasingly beginning to think globally about propaganda and information control, following the lead of President Hu Jintao, who said in a major media policy speech ahead of the 2008 Olympic Games that China had to be more proactive in getting out its own messages. Liu Yunshan, the chief of China's powerful Central Propaganda Department, underscored this shift at the outset of 2009 when he said "bringing its communication capabilities in line with its international status was a critical strategic task for China." The

propaganda chief said China must "seize the initiative" for domestic and international news stories, thereby "raising China's capacity to channel public opinion."

By building trusted CCP news outlets into international outlets, China wants to take the fight directly to Western media. Xinhua News Agency's global development strategy for 2008-15 involves the expansion of the agency's video production capacity by equipping its international

bureaus with state-of-the-art equipment and crews. Xinhua will continue to expand personnel and technology, producing video wire content and programming for distribution through media outlets worldwide. By 2015 it will have its own global television network up and running, offering content directly to international audiences.

On one level, China's expansion of its "media soft power" simply makes good sense. Shouldn't China, after all, have a greater voice in the world? And shouldn't it have the right and the capacity to explain its actions to the rest of the world?

But the problem is summed up best in those indignant words from the journal *Qishi*: "Monopoly is the enemy of freedom." The CCP is monopolizing not only China's global media push by restricting involvement to trusted central party media, it is monopolizing the tone and tenor of "China's voice." On the one hand, CCP leaders argue that "China's voice" should receive a fairer hearing in the world. On the other, they do everything within their power to constrain that voice, ensuring that it serves the party's narrow political ends.

China's "soft power" overtures are often hard to distinguish from coercive hard



power shoves. This is something the planners for the Frankfurt Book Fair now understand only too well. China, the guest of honor at this year's fair, threw its weight around behind the scenes in an effort to prevent public participation by Chinese dissident writers. Dai Qing, a celebrated journalist and the author of a powerful book of 1980s reportage criticizing China's massive Three Gorges Dam project, was initially invited with dissident author Bei Ling to attend a public symposium ahead of the fair, but both were later encouraged not to attend after members of the official Chinese delegation expressed their outrage.

The spat quickly became major news, and the fair's director apologized to the public and the authors, who attended anyway. "The Frankfurt Book Fair does not compromise to the detriment of freedom of expression," he wrote. "Facilitating dialogue is not easy ... Dialogue is, however, the right way and the only way."

Mei Zhaorong, a former Chinese ambassador to Germany, said China's official delegation had not come to Germany "to be instructed about democracy." But their refusal to accept the right of Chinese dissidents to freely express their own views seriously undermined the credibility of China's soft power.

CCP leaders fail to understand that when the sanitized voice of party-backed news, party-financed film productions or party-approved publishing is presented as "China's voice," freethinking citizens from any nation have cause for doubt. The credibility of what China does say is fundamentally compromised by its willful omission of what cannot be said.

The CCP has invested a great deal of money and manpower into thinking strategically about how to raise its level of credibility through news and information. Look beneath the surface, however, and you realize that what China's mediapolicy wonks are really talking about is the global com-

mercial makeover of state propaganda. Mr. Zheng, the communications scholar, recently wrote about the need to "understand the mood and demands of overseas audiences" and to be "vivid and concrete" in international news coverage. But he also made clear that the primary function of the state journalists responsible for China's soft-power push would be to convey the messages of the CCP, even when they were being "factual":

Journalists must learn to objectively, reliably and simply convey the facts they have seen and then imbed within these objective accounts the point they wish to explain, in order that when the audience receives the facts reported by the journalist they unknowingly accept various standpoints and viewpoints contained therein. This is the ideal to which news and communications must aspire, and it is one of the most important arts and techniques a news journalist must grasp.

Embedding propaganda messages in "objective" news stories may be the highest goal for Chinese journalists as defined by the party leadership. But it is most definitely not the means to real credibility and "media soft power."

As China's new global media go out into the world, they will face the same crisis of credibility that now faces China's state-run media at home. No matter how savvy their news products may seem, and no matter how completely they may have mastered the art of modern propaganda, their credibility and appeal will be undermined by the CCP's stranglehold on China's voice.

Shaping news media with real and enduring credibility is an enterprise no amount of money can achieve, and its basic demand is that journalists work in a spirit of independence and professionalism. China's own experience shows this. Before the CCP came to power in 1949, the

Ta Kung Pao, or L'Impartial, was a professional Chinese newspaper whose credibility has not been equaled since. Founded in Tianjin in 1902, the newspaper was known for its professional news journalism and its strong political commentaries.

Ta Kung Pao's motto was "no party affiliation, no political endorsements, no self-promotion and no ignorance." The last of these was a pledge to report on the concerns of the people and represent the public interest. In the 1940s, as Mao Zedong's CCP and Chiang Kai-shek's Kuomintang were locked in a fierce civil war, the Ta Kung Pao was attacked but also eagerly consumed by both sides of the conflict. Chiang and Mao relied on the newspaper for the valuable information it provided, but both no doubt envied its credibility and influence, which no amount of power or money could buy. The original Ta Kung Pao—the paper eventually came under CCP control—still stands as one of the brightest examples of professional journalism in Chinese history.

CCP leaders should also draw lessons from the fact that those Chinese media outlets working in a spirit of independence today, even within the restrictive environment of CCP media controls, remain China's most credible. Last month, journalists across China lamented the resignation of Hu Shuli as editor-in-chief of Caijing, a magazine she had spent more than a decade fashioning into one of China's most credible and influential publications. The reasons for Ms. Hu's departure from Caijing were complicated, but it is now clear she was engaged in a tug-of-war with the magazine's bosses at the SEEC Media Group over ownership and editorial control. Ms. Hu has never been one to compromise her principles.

Under Ms. Hu's leadership, Caijing managed to remain profitable even while upholding an uncompromising professional standard of independence in a tough po-

litical environment. Ms. Hu made it clear from Caijing's beginnings that the magazine would tread its own path, conforming to international journalism practices and producing independent news and commentary. She encompassed the magazine's editorial goals with three words: "Independent, exclusive and original." Over the past decade, Caijing produced some of China's most outstanding investigative reporting, exposing cases of corruption and openly challenging power.

When news came of Hu Shuli's departure from Caijing, even journalists at official party media praised her contributions. An editorial in the official Changjiang Daily said Hu Shuli's Caijing had "re-defined the image of Chinese media," and it urged the whole industry to draw lessons from her "intelligence and courage."

As China's leaders prepare their global charm offensive, they might draw instruction from the successes of Caijing and Ta Kung Pao. Both publications earned their credibility because they served public interest over narrow political interests, pursuing their ideals of professionalism and independence.

To the detriment of its soft-power ambitions, the CCP continues to regard independent voices as "static and noise" to be softened and constrained. One centerpiece of the party's international policy is the notion of "harmony." At home, this official catchword has become synonymous with censorship of China's Internet—a telling sign of the level of credibility the notion is afforded in China. When harmony is bought at the price of silence within China, how can it possibly be a persuasive centerpiece of China's soft power?

If China's leaders hope to win the respect of the world, they must first be prepared to accept some discord. When China shows a greater willingness to listen to its own voices, the world will be more assured that it speaks in good faith. ■



China in Obama's World

by Dan Blumenthal



IN SPEECHES AND policy pronouncements over the course of this past year, President Barack Obama's team has offered hints of the new president's approach to international politics. During his trip to China, he began to convert rhetoric into policy.

What are those basic premises, and how will they translate into Mr. Obama's China policy?

First, as Mr. Obama stated last year at a European meeting of the G-20, there is nothing exceptional about America's role or duties in the world. Second, in a July speech in Washington at the start of a meeting between senior Chinese and American officials, the president made the case that the world has entered an era that transcends great power politics. Great powers must choose to cooperate; they have more in common than not. Third, in a speech to the United Nations General Assembly, Mr. Obama put forward his view that we are in an era of new partnerships and that "the alignments of nations rooted in the ... Cold War" no longer "make sense." Fourth, while the U.N. Assembly's Charter

commits each of us to "affirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women," America has been too "selective" in its application of these rights in the past. The United States is thus in no position to promote and defend them aggressively. Fifth, with the advent of the Obama presidency we are "in a new era of engagement." During the Bush years, America had become a rogue state, with the world's nations wary of both our policies and friendship. Now, under Mr. Obama, America will return to being a responsible power, promoting mutual respect and common interests.

With respect to China in particular, the Obama administration will follow an approach of "strategic reassurance." As articulated by Deputy Secretary of State James Steinberg, the basic ideas driving this China policy are that "no nation can meet the world's challenges alone" and that "most nations worry about the same global threats."

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The administration has explained strategic reassurance as a basic bargain. We and our allies will not contain China; rather, we will welcome its rise as a prosperous power. But, in turn, China must reassure other nations that its new stature will not come at the expense or security of others. For this policy to work, each side must strive to allay each other's concerns and develop ways to work together on common objectives.

From Mr. Obama's perspective, strategic reassurance has gone rather well. China and the United States addressed the global financial crisis together by implementing the two largest stimulus packages in their respective histories. We are working together to forge a global climate change pact. We have a common approach toward North Korea, including the implementation of U.N. Security Council Resolution 1784 which seeks to further punish Pyongyang for its last round of nuclear and missile tests. Washington and Beijing will work together to deal with Iran's nuclear programs. We have a common interest as well in the stability of Afghanistan and Pakistan and making sure that dangerous extremists are defeated.

The administration, however, has its concerns about China. These include questions about the China's strategic nuclear weapons modernization and its growing capabilities in space and cyberspace. The administration would also like to see more transparency by the PLA when it comes to ensuring peace across the Taiwan Strait, and it wants Beijing to be more modest with its sweeping assertions of its rights in its Exclusive Economic Zones and their surrounding waters. Nevertheless, from the administration's perspective, the Sino-American relationship will be defined more by what we have in common than where we differ. At the end of the day, problems in the relationship can be alleviated through greater dialogue and communication.

In turn, China made clear its own priorities in the lead up to Mr. Obama's trip. Over the course of the past year, Chinese officials have lectured visiting Americans about the need to respect its "core interests." Most of these interests can be summed up in a single sentence: "Do not interfere in what we define as our internal affairs." America should not interfere in the "internal" matter of Tibet and, in particular, it should forego any relationship with the Dalai Lama, whom China regards as akin to a criminal.

Despite an unyielding military buildup across the Strait, Washington should also not interfere in the "internal" matter of Taiwan by selling it arms, nor get in the way of China's dealings with the "terrorist" problem in Xinjiang. Moreover, Washington must avoid providing succor to the "Uighur separatist," human-rights activist Rebiya Kadeer. Finally, Beijing believes that America should stay out of China's maritime Exclusive Economic Zone, which, as defined by China, includes territories and resources claimed by Japan and other South East Asian nations as well.

Other Chinese concerns are so enduring and obvious to the Chinese that they required no further elaboration. As always, China stands behind the position that its human-rights practices are none of Washington's business. And Washington must stop the quasicontainment policy it has been enacting since the end of the Cold War through its strong regional system of allies and new partnership with India.

So from each side's perspective, how does the relationship fare so far? How reassured should both sides be?

By any objective measure, on issues identified by Obama officials as common security concerns, China falls short. Attempts by the administration to secure more Chinese help with "Af-Pak" have been gently rebuffed. China has accelerated its trade and energy relationship with Iran,

undermining the threat of "P5 plus 1" efforts to sanction Iran. On North Korea, while China signed on to resolution 1784, Beijing then quickly set about building stronger economic and political ties with the North Korean regime. In October, Premier Wen Jiabao became the highest level visitor to North Korea in decades. The objectives and results of his trip remain a mystery to the other parties in the nuclear disarmament talks.

Yet from China's perspective the relationship has gone quite well. The Obama administration has been happy to oblige China and respect its "core interests." Mr. Obama set a new precedent by refusing to meet the Dalai Lama when he was in Washington. Administration officials had not a word to say about the brutal crackdown of the Uighurs this year. To date it has not met with Rebiya Kadeer. As this magazine went to press, the administration has not sold a single weapons system to Taiwan.

With this record, Beijing must have had high expectations for Mr. Obama's visit. The new president's general foreign-policy approach must be quite popular within the Politburo. Mr. Obama has proclaimed an end to the era of great power competition. In his U.N. General Assembly speech, Mr. Obama deemed "Cold War" alliances (such as those we have with Japan and South Korea) "a legacy of the past." The administration appeared to view the past practice of meeting with Uighur and Tibetan leaders to promote their respective cultural autonomy as too large an obstacle for Sino-American relations.

During his trip to China, President Obama did not disappoint his hosts. On his way there, he made obligatory stops in Japan and South Korea. Nothing much was

accomplished in either place. To be sure, it will be difficult to deal with the government of Prime Minister Yukio Hatoyama as a new era in Japanese politics sorts itself through. But the day Mr. Obama left Tokyo, Mr. Hatoyama rebuffed his guest's attempts to solve military base issues on Okinawa. The bluntness and rapidity of the Japanese rebuke could have been avoided with better diplomatic preparation. In South Korea, Mr. Obama's inability at home to ratify one of America's largest free trade agreements ever was an embarrassment. South Korean

President Lee Myung-bak immediately rejected the notion that he would, for a third time, renegotiate the pact. The Chinese must be quite satisfied with the president's empty visits to America's key North-east Asian allies.

Mr. Obama believes that America does not have the power to speak up about how China treats its people.

In China itself the most Mr. Obama could bring himself to say about a regime that represses all political dissent is that he is for "noncensorship." The president gave in to the CCP's policy of keeping Chinese political dissenters at a safe distance. And the joint statement he issued together with President Hu Jintao reads like a series of concessions to the Chinese.

The most damage Mr. Obama did in the joint statement was his agreement to relegate India to junior power status. China has worked tirelessly to check India's great power ambitions, particularly its growing influence in Asia. Once again Mr. Obama obliged. Not once in his trip Asia did Mr. Obama speak of India's growing role in East Asia. In their joint statement, the two presidents agreed to "support the improvement and growth of relations between India and Pakistan." China and the United States, the statement says, "are ready to strengthen communication, dialogue and cooperation on issues related to South Asia

and work together to promote peace, stability and development in that region." While this might sound like harmless diplomatic boilerplate, such words are a substantial diplomatic triumph for China.

For decades China has been trying to tie down Delhi in South Asia by supporting India's archrival Pakistan. The Bush administration helped India by negotiating a broad U.S.-India strategic framework, an approach that "de-hyphenated" America's India-Pakistan policy. India would be treated as a great power in its own right, with interests in South Asia, the Middle East and East Asia. Indeed, India was essential to Bush's Asia policy, which recognized America's need for strong relations with India to check growing Chinese power. It is not surprising that China is working to place India back in the India-Pakistan box. A statement setting forth a Sino-American condominium working for peace in South Asia is music to Chinese ears. The puzzle is why the Obama administration would agree to this approach.

The Obama administration is playing down China's undemocratic ways because, he believes, America has neither the power nor the moral standing to speak up about how the regime treats its people. The alliances with South Korea and Japan and relationship with Taiwan are "Cold War relics" that certainly do not need as much presidential attention as relations with an ascendant China. The president believes that we are in a new era during which great power balances of power are a thing of the past. If great power competition is passé, building up our relations with India to check China is unnecessary. According to Mr. Obama, we are a nation whose past sins are great and future pre-eminence is in question. We have no choice but to forge a new strategic partnership with an ascendant China, even if the price of that partnership is the sacrifice of what past administrations defined

as interests and values that were nonnegotiable.

But Mr. Obama's world is not the real world. The Chinese Communist Party is made up of "realists" concerned foremost with power politics. They are building up their military and expanding their zones of influence at a rapid clip. Their concerns about "interference" in Tibet, Taiwan, and Xinjiang bring to mind a 19th century imperial power worried about increasingly restive native populations. Suffice it to say the CCP does not subscribe to Mr. Obama's vision of international politics. They play a politics of power invented many centuries ago.

America's allies know they live in a dangerous neighborhood. They do not want the U.S. to cede ground to China. They want a firm U.S. policy in the region that checks growing Chinese dominance. They want the U.S. to be economically integrated in the region and engaging China from a position of strength. The irony of the Obama foreign policy is that though it seeks to avoid conflict with China, it actually makes intense competition with China more likely.

For China and the U.S. to have a relationship based on lasting common interests and mutual respect, those Chinese who want to liberalize China—individuals with whom Mr. Obama did not speak—must win the day when it comes to defining their country's future. That is why the president's dismissive approach to the promotion of human rights and liberalization is ultimately self-defeating.

As the Chinese work out their future, the Obama administration must abandon the dangerous conceit that we are in a new era that transcends power politics. It must do the hard, if unpleasant, work of maintaining a balance of power in Asia that favors the maintenance and growth of liberalism—both political and economic—in the region. ■



The Fate of China's Rights Lawyers

by Jerome A. Cohen and Eva Pils

HAVING CONTRIBUTED several essays on the development of China's judiciary to the FAR EASTERN ECONOMIC REVIEW over the last five years, it is sobering to look back on the fate of those individuals whose plight we discussed. The sufferings of these activists tell us much about the lack of progress to establish the rule of law.

• *Chen Guangcheng* This blind lay advocate's only ambition had been to help the weakest and neediest among his fellow rural residents to protect themselves against extortion and cruelty. A dirt-poor farmer's child, he campaigned to expose massive official abuses against the families of women who fled forced abortion and sterilization and against those who resisted unlawful "taxes." These activities incurred the wrath of local government and, it became increasingly clear, the central authorities (see Jerome Cohen's November 2005 essay for the REVIEW, "China Trips Up Its Barefoot Lawyers").

Just prior to his arrest, Mr. Chen participated in an online fasting campaign for human rights initiated by fellow activists

Hu Jia, Gao Zhisheng and others, writing that he did this "to oppose thuggish behavior toward human rights defenders" and "to protect the dignity of the law and resist the brutality of local government." A few days later, in March 2006, after months of illegal confinement at home, Mr. Chen was formally detained by police. By August 2006 he was convicted of "intentionally damaging public property" and "organizing a mob to disrupt traffic" in the course of a melee involving thugs and villagers hired by officials. These were patently absurd charges, but the authorities did everything to prevent them from being refuted in a series of sham judicial hearings from which Mr. Chen's chosen defense lawyers were excluded, and during which no witnesses were allowed to appear.

Mr. Chen has now served over three years of his sentence of four years and three months in harsh prison conditions in Shan-

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dong's Linyi City. He is scheduled to be released in late 2010, but he may not live until then. In prison, the blind Mr. Chen has reportedly had to depend on fellow inmates who, at the instigation of his jailers, often refuse to get him food and beat him. Prison authorities have not even allowed him to receive any books for the blind, apparently because of their inability to censor such readings. Mr. Chen has been suffering from severe diarrhea since July 2008. Yet he has not been given any medical examination in over six months, and the prison medication he receives is plainly inadequate. In October, in a rare telephone call, he told his wife that he had lost eight pounds in the past month and badly needed treatment.

The authorities refuse to relent. Mr. Chen's wife Yuan Weijing, who has lived under constant surveillance and restrictions since Mr. Chen's detention, has not been allowed to visit him for many months and has been informed that there is no chance of doing so "certainly not before Chinese New Year," next February. Applications for medical parole have not even elicited an official response. While bracing herself to wait out the expiration of his sentence, Ms. Yuan says, "even if Guangcheng gets out, I am afraid our situation will be fairly dismal." The government, which apparently fears Mr. Chen's post-release activity, seems determined to permanently disable him.

● *Gao Zhisheng* Another child of poverty, a one-time coal mine worker, soldier, Party member and a self-taught lawyer, Mr. Gao also helped defend the poorest and weakest. Initially he gained official approval for his pro bono work, and in 2001 was voted as one of China's top 10 lawyers. But he soon joined the group of lawyers taking on more sensitive cases such as that of Chen Guangcheng (see Jerome Cohen's October 2006 essay for the REVIEW, "A Slow March to Legal Reform"). When Mr. Gao began to gain an understanding, at

first sporadically, and then in a systematic way, of the extraordinary brutality with which the Chinese state was treating Falun Gong believers, he found himself unable to ignore their suffering. His open letters exposing this brutality, his public withdrawal from the Party in protest and his fearless condemnations of many other everyday abuses, often via overseas Web pages, sealed his fate.

Mr. Gao knew what was coming to him. "Everyone thinks I am stupid," he said. "But what really distinguishes me and them is fear." Among his fiercest critics were some fellow human rights activists who thought his approach was unnecessarily and dangerously provocative. Chen Guangcheng, Hu Jia and many others defended him against these accusations, pointing out that Mr. Gao was only following his conscience in speaking up for the victims of such abuses, and that the ongoing cruelties were a disaster not just for the immediate victims but for the entire country.

Lawyer Gao may now be psychologically as well as physically devastated. But we are still waiting to find out. The surveillance he and his family suffered until his detention and later arrest in September 2006 seems almost insignificant compared to the suffering they have been subjected to since then. While Mr. Gao was under criminal investigation for "inciting subversion," the family had to tolerate state security police moving into their flat and humiliating them daily in ways that especially left Mr. Gao's then 13-year-old daughter emotionally scarred.

After Mr. Gao's surprise "release" on a suspended sentence in December 2006, the situation became worse, as he and the entire family endured constant



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The Limits of the Party's Adaptation

by Nicholas Bequelin



THIS YEAR'S commemoration of the 20th anniversary of the fall of the Berlin Wall has led many commentators to reflect on the widely diverging fate of communist parties in China and the former Soviet bloc. Whereas in Russia and Eastern Europe communism was consigned almost overnight to the "dustbin of history," in China two decades of breakneck economic growth, a policy of openness to the outside world, particularly on business, and continued domestic political control have strengthened the rule of the Chinese Communist Party beyond all expectations. Today, the CCP controls more resources, enjoys greater domestic acquiescence and commands far more international respect than it did in 1989.

China's urban citizenry, while still facing sharp limits on basic rights such as expression, information, association or assembly, may enjoy more private freedoms, and legal protections than at any prior point in Chinese history. While not about to take over the world as some sensationalistic commentators would suggest,

the People's Republic has indeed turned into a global power. It is even sometimes touted as a challenge to the liberal democratic model. This is a scenario, the British historian Timothy Garton Ash recently admitted, that "we simply did not imagine in 1989."

The CCP's success in both modernizing China and maintaining its monopoly on power, received wisdom holds, comes from the lessons Beijing drew from the upheavals of 1989, abroad and at home. The system had to be reformed, but in the reverse order from the one Gorbachev attempted: economic reforms first, political ones later, or else everything risked unravelling. But in fact political reforms were actually never on the agenda. The real lesson drawn by the CCP from the events of 1989 was much more far-reaching: In order to survive and keep power, the Party concluded, it needed to adapt and respond to social change. Unceasingly.

Indeed, in the eyes of Beijing's rulers, the reason why the protests had spiralled

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out of control was that the Party had failed to prevent an array of social demands—from curbing inflation to fighting corruption and lifting unnecessary restrictions on private life and social mobility—from coalescing into broad disaffection with the Party and then into a political movement. Since that time, the Party has made its central task not just economic development, but identifying and responding to social demands before they have a chance to morph into demands for political reform and democratization.

By following this principle, the CCP has become what could be best described as the first Darwinian Leninist Party in history, one that sees constant adaptation as the key to survival. This goes a long way towards explaining why the Party has introduced wide ranging reforms that, at first sight, would seem to undermine its rule. These include relaxing the structures of social control imposed by the work unit system, aggressively promoting information technologies, including the Internet, allowing the emergence of a commercial press, luring back students who had studied and settled abroad after 1989, inviting foreign academics to come to teach anything from journalism to law in the country's best universities, introducing the concept of ruling the country according to law, actively promoting the idea that ordinary citizens have inalienable rights, and even writing in the country's constitution that "the State respects and protects human rights." All these were demands that the Party calculated that it could and needed to accede to since they didn't threaten the CCP's fundamental monopoly on power.

This also explains why many Chinese intellectuals have accepted being co-opted by the regime. The unspoken compact between China's intelligentsia and the CCP is that so long as they remain loyal to the system they have a chance to speak behind closed doors and even influence policy. The

Central Party School can now discuss any topic under the sun. This is a pragmatic policy to help the Party avoid ideological blindspots or information gaps that could lead to damaging surprises. This is also why, to the surprise of many first-time Western visitors and journalists, students and urban citizens often profess to be supportive of Party rule. If things keep getting better, why rock the boat?

Of course, there is another column on the balance sheet of post-1989 Party rule. Here are the hundreds of millions of citizens who are on the other side of the fence, either because they don't accept Party rule, are marginalized by ethnicity or geography, or have missed out on the benefits of massive GDP growth. Indeed, the Party devotes considerable resources trying to conceal most of the negative aspects of China's "miracle," such as the environmental destruction brought about by breakneck growth at all costs, the seemingly bottomless depths of widespread corruption and greed, and the smothering of culture, religion and identity in minority regions such as Tibet and Xinjiang. Not to mention the high human costs of scandals such as the tainted milk disaster, the innumerable "cancer villages" that dot the areas benefiting from the highest rates of "development," the rivers that carry lead in their waters and poison those who live on their banks, or the collapse of shoddily built schools that killed thousands of children in the areas hit by the May 2008 Sichuan earthquake, among many others.

From time to time a crisis hints at the depth of the problems festering under the varnish of economic development, and so we "know" about melamine-tainted milk, lead poisoning or cases such as that of Xu Gengrong, a 19-year old high-school....

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Pressure Builds On Beijing

by Jonathan Fenby



FOR CHINA, 2008 has been a time of a remarkable string of round number anniversaries of momentous events. We have had the 90th anniversary of the start of the May Fourth movement, the 60th anniversary of the foundation of the People's Republic, the 20th anniversary of the Beijing massacres and, give or take a month, the 30th anniversary of Deng Xiaoping setting the world's most populous country on the path of market economics. Go back somewhat further and one could add the start of the First Opium War in 1839. Come much closer to 2009 and March brought the first anniversary of the anti-Chinese rising in Tibet.

Anniversaries are not particularly interesting in themselves, even if they provide useful pegs for backward looking feature articles and reminiscences from those involved. What is worthy of attention is how they are dealt with when they involve political sensitivities. For the current Chinese regime, as for its imperial predecessors, the past is not another country. History remains an acutely political issue as shown by

the trouble the current leaders have in getting to grips with the legacy of Mao; the economic driving force that powers the P.R.C. today is light years away from his teachings but his portrait continues to stare out over Tiananmen Square. For what seem to be purely tactical reasons, some of the next generation of politicians have started to hold him up as a teacher whose creed should be honored again, even if this runs counter to policies they put into practice.

The way in which the June 4 anniversary was ignored was symbolic of an increasingly tough crackdown on dissent by the Hu Jintao administration and the growing status of the security services. The leadership cannot acknowledge such awkward facts as the Beijing massacres because it is unable to construct a coherent narrative or convincing argument that would absolve the regime of blame for the killings. Equally, it preferred to make little of the May

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Fourth anniversary because of the themes of iconoclasm, democracy and free speech that followed the outburst by students in 1919. In both cases, and in particular on June 4, it can at least take comfort from the way in which most people seem quite ready to go along with such historical blindness.

If the silences over 1919 and 1989 were in no way surprising, perhaps the most telling anniversary event came with the big show on Oct. 1 for the 60th anniversary of the People's Republic, complete with its display of military hardware and ranks of bright pink miniskirted women's militia. Mr. Hu shed his business suit in favor of a tunic as worn by Mao to review the troops from a Red Flag limousine. "Hello comrades," he cried and got the reassuring reply "Hello commander! Serve the people!" while crowds of children flipped colored cards to produce huge slogans pledging loyalty to the Party and the pursuit of the harmonious society preached by the general secretary.

It all showed the pull of the recent past felt by the leadership of a nation which has to absorb the social effects of growth set to rise to 9% to 10% in the last quarter of the year. There were model workers and depictions of industrial might and agricultural productivity that carried inevitable echoes of the Great Leap Forward, even if they are real today rather than the inventions of the late 1950s. Most tellingly, though 30,000 selected guests watched the two-mile parade, the citizens of Beijing were not allowed to witness the celebrations in person. They could see it on television, but not from the pavements.

What kind of regime is it that puts on this kind of show and keeps its people from watching it directly? Next time, the whole thing could be mocked up in a video studio and presented as a virtual celebration complete with animated figures of the leadership.

The fear of an incident involving Tibet-

ans or Uyghurs after the violence in Urumqi this spring may have been one immediate reason for the caution. But it also stems from a deeper characteristic of the regime which not only colors the way history is treated but also points to a real challenge for Hu and the men who will take over from him and Wen Jiabao in 2012.

Control is everything. Having drawn the lessons of the collapse of Communism in the Soviet Union, the leadership is intent on not relaxing its grip on power as it sees Gorbachev as having done, with fatal results. One may well speculate that, paradoxical as it may appear, the undoubted expansion of private, personal freedom in China in this decade has only served to buttress this all-pervasive taste for control.

The more that Chinese as individuals, particularly in the middle class, are able to buy the goods they like and travel abroad, the greater the need to ensure that they do not form groups which might offer opposition to the Communist Party. Shanghainese can be allowed to go to see the comic Zhou Libo delivering his imitation of Wen Jiabao, complete with its edgy punch line "It is too late" echoing Zhao Ziyang in 1989, but he is still in the realm of show business and thus avoids parodying Chinese administrators exclusively. Hence the persecution of human rights activists and lawyers standing up for the downtrodden; they, too, are individuals but they represent a potential group activity which, in the imagination of officials who cleave to the Party's version of history, could be the spark that sets off the proverbial forest fire.

This desire to maintain control has other ramifications. It lies behind the conservatism of the Hu-Wen administration when faced with the structural reforms China needs to underpin its second...



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Realities of Education Reform in China

by Jiang Xueqin

UNAWARE OF THE time of day, a teenager sits in a dimly lit room, focused on a mundane repetitive task that robs him of his hunger and energy. In America, this teenager most likely is playing video games, and his parents may disapprove. In China, he probably is studying for the national college entrance examination, or *gaokao*, and his parents will approve.

To compare cramming for a test to playing video games may sound absurd, because most people assume that teenagers enjoy games but hate studying. That's not necessarily true, as I discovered when I accepted a job to help Shenzhen Middle School students apply to American universities in 2008. The real problem with China's education culture is that students are too obsessed with cramming for their own good.

I first met Principal Wang Zheng in 1998 in Beijing at Peking University High School when he was a young vice principal and I was spending a semester away from Yale to work as an English teacher. We both believed in bringing freedom of

choice, diversity and individuality to China's public schools. But then our paths parted for a time, as I went on to pursue journalism and Wang Zheng went to Shenzhen to pursue his dream.

In 2002 Shenzhen appointed him to be principal of its flagship public school, Shenzhen Middle School. Shenzhen was a new city without good schools or a strong education culture, and in hiring Mr. Wang the city government felt it had pulled off a major coup. Here was a scion of an old Beijing intellectual family, a Peking University physics graduate, and the leading light of education reform in China. Parents and students were happy and excited. Unfortunately, the honeymoon ended when Mr. Wang actually began to reform Shenzhen Middle School.

Education reform has been the dream of China's intellectuals for decades, but what has made reform a priority is the free market economy. The traditional Chinese education system of rote memorization was

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effective at cultivating elite bureaucrats to serve the empire, and it's still adept at steering the best and brightest toward the Communist bureaucracy. But economic development and globalization have created the need for a more diverse talent pool, and the Communist Party now recognizes that it also must train knowledge workers using international best practice. Multinationals and Chinese companies alike complain that China lacks management and creative talent, and in 2005 McKinsey warned that without education reform China's economic development will be seriously hindered.

At the same time, however, the gaokao is an important part of the Party's system of social control. It indoctrinates future intellectuals to toe the Party line, because the consequences of not being admitted to university are just too steep: social, economic and political alienation. Moreover, Chinese believe it's the only meritocracy in China. The gaokao is the Chinese dream: If you study hard, you can improve your life. It may be imperfect—there's cheating and corruption, hypocrisy and deception in the system—but it remains an accepted part of life because it offers an avenue to social mobility that is open to everyone.

However, the test also colors Chinese people's entire understanding of education in ways that are not constructive. Consider Chinese high school students who plan to study abroad, a process which in theory, because the process is so fluid and because of the expectations of American university admissions officers, ought to unleash the individuality and imagination of Chinese students. But that is not how they approach the applications in practice.

As the administrator responsible for study abroad students at Shenzhen Middle School, I find the process to be a nightmare. Chinese merely shift their test-taking mentality to the study-abroad process, and students spend all three high school years

cramming for the Scholastic Achievement Test and Test of English as a Foreign Language. Chinese public schools do not require these students to attend classes (what's the point?), and students write their own recommendation letters as well as customize their transcripts. There are dozens of agencies staffed by Ivy League graduates who are paid more than they would be on Wall Street to write personal essays for Chinese applicants.

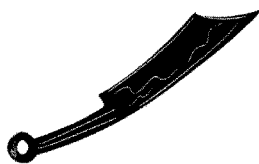
The Western university application process refracted through the prism of Chinese culture has become a corrupt system monopolized by China's elite. China's best universities have tried to move toward an American university admissions model, but public uproar forced them to retreat. Education reform naturally entails more subjectivity in the process, but this subjectivity would only be legitimate if it was backed by institutions, processes and systems that people trust, respect and understand. Unfortunately, in China people only understand power and personal connections.

In other words, reform may be necessary for economic development, but no one has the slightest clue as to where to start and how to prevent the inevitable pressures and vested interests from corrupting reform and destroying the entire Chinese public education sector.

In 2002, the Ministry of Education unveiled its "new curriculum" plan to reform the gaokao system. The goal was to emphasize real active learning, as opposed to memorization and regurgitation. This is a noble lofty goal, but no one knew what it would entail. Moreover, the Ministry launched the curriculum without updating the gaokao, a clear sign to everyone that the reform was in fact just sloganeering....



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Land Reform Lessons For Asia's Giants

by Roy L. Prosterman



MOST OF CHINA and India's population—1.4 billion people out of a total of 2.5 billion—still depend directly on agriculture for much of all of their livelihood. Yet the majority of this huge farming population lacks secure rights to the land they cultivate.

Thus, 60 years after the Chinese revolution and 62 years after Indian independence, the land tenure issue remains alive and critical. Its resolution—or non-resolution—will be one of the key determinants of the future course of development in both countries. It is central, for example, to the growth of China's internal consumer market and to India's long-term political stability.

Data from a wide range of countries confirms that secure, long-term possession by those who farm the land brings a whole series of desirable results, such as improved family nutrition and the mitigation of rural grievances. By facilitating an investment horizon that allows for long-term improvements on the land, secure individual ownership contributes to increased production of basic crops and

diversification into higher-value crops. As a result, farm incomes grow, which in turn makes a much wider range of consumption possible. Heightened personal status, land wealth, and a greater stake in the rural society also reduce pressures for premature urban migration.

Several of the Asian “miracles” have had their roots in successful post World War II reforms of rural land tenure, notably Japan, South Korea and Taiwan. Each gave ownership of their small farms to nearly all tenant farmers from 1946-55. As a result, grievances diminished, while productivity and income surged. In Taiwan alone, grain production increased by 60% and total farm incomes by 150% in the ten years following the 1953 completion of the land-to-the-tiller program.

India and mainland China were greatly affected by the egalitarian political currents that led to major Asian land tenure reforms. Though the two countries seemingly followed radically different paths to tenure reform, both were overwhelmingly

∞ Mr. Prosterman is president of the Rural Development Institute in Seattle, Washington.

agricultural societies, and both confronted early disasters that could easily have been avoided. Moreover, each country has now reached a state in which the land tenure issue remains a major impediment to development—though China is closer to a comprehensive solution.

The Chinese Experience

MAINLAND CHINA'S LAND tenure reform was at first quite similar to the land-to-the-tiller programs in Japan, South Korea and Taiwan. From the 1920s onward, Mao Zedong and the Communist Party used the promise of individual land ownership for tenant farmers to gather support from the rural poor. When Mao came to power in 1949 that promise was initially kept under a new Land Law that conferred full private ownership on China's tenant farmers (though it differed from the successful programs elsewhere in being overtly confiscatory and accompanied by extensive local score settling against landlords). Under this law, some 47% of China's farmland was redistributed to virtually 100% of the non-landowning families.

From 1949-56, individual ownership prevailed with striking results—rice production increased by 70% and farm incomes by 85%. Then came China's early disaster: In 1956, perhaps to gain more control over the rural populace, Mao began a process of forced collectivization, which by 1962 culminated in the People's Communes, the collapse of agricultural production and the 20th century's worst famine. An estimated 15 million to 30 million people died before Mao backtracked to much smaller collectives, but even then recovery was slow. Per capita grain production in 1977 remained lower than it had been before collectivization began two decades earlier.

Then in 1978, a local experiment that involved breaking up entire collectives

and letting families farm individually proved dramatically successful. Acting pragmatically, the new central leadership under Deng Xiaoping allowed this "Household Responsibility System" to expand nationwide. Under the new system, the collective would remain the owner of the land, but every household could depart the collective with equal per-capita shares of the land, to which the family would have use rights. They would pay a quota to the collective, which was typically equal to around one-fifth of the grain they individually produced. By 1984, virtually the whole collective system had been dismantled and replaced by household farms. Over those six years, grain production increased by 8.6% and farm incomes by 11% per annum.

But something was still missing. When my colleagues from the Rural Development Institute and I began doing village fieldwork in 1987, we quickly found that farmers had made much-needed improvements, including seed selection, timing, careful fertilization and weeding. Yet they had made virtually no long-term investments in the land, such as building greenhouses, fishponds, trellises, fruit trees, terracing, land leveling or soil improvement.

The reason was clear. Though the farmers had individual land parcels, they had no assurance they would have the same parcels from year to year. In the name of maintaining absolute per capita equality, local cadres could periodically "readjust" the landholdings as the population of the village or household changed. Readjustment was China's Catch-22, and it threatened to permanently forestall land investment. Since 1993, the leadership in Beijing has sought get rid of land readjustments and give China's 200 million...



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The Paradox of Japan's Human Rights

by Colin P.A. Jones



JAPAN'S GOVERNMENT puts great stress on protection of human rights in its public awareness campaigns. And with a vibrant democracy and independent judiciary, Japan would seem to be well placed to score well internationally for civil liberties. So it must be puzzling for Japanese leaders when they are subject to repeated, sometimes scathing criticism for the country's poor human-rights record.

The problems blotting Japan's copy book are increasingly well-known internationally: The country is a haven for parental-child abduction, it has a poor record in dealing with discrimination against minority groups and the criminal justice system makes defense lawyers cringe. Many of the issues are not new—one member of the United Nations Human Rights Committee has cited Japan's repeated failure to act on its past recommendations as proof of "a dialogue with the deaf."

In particular, Japan's criminal trials produce a small but steady stream of horror stories. Prolonged detentions and harsh questioning without access to coun-

sel are common after arrest, sometimes even before if the police rely on "voluntary" cooperation from suspects. Police and prosecutors can detain and question a suspect for up to 23 days before making an indictment decision. Some defense lawyers call this system "hostage-taking criminal justice," and decry it as tool for coerced confessions, false convictions and human-rights abuses. Japanese criminal trials are famous for having a conviction rate of more than 99%, though to be fair this includes many cases which would be resolved without a full trial (Japan does not have plea bargaining).

At a recent symposium held by the Osaka Bar Association, one of the speakers was the vice mayor of Hirakata City, who had been arrested for supposedly rigging public-works contracts. In his 60s, he was questioned and threatened from dawn until dusk for days on end without a lawyer present, and even denied medication he needed for a health condition. After a few days the stress caused his urine

∞ *Mr. Jones is a professor at Doshisha University Law School in Kyoto, Japan.*

to stop. A catheter was inserted, badly, but the questioning continued, with him wearing a blood-soaked diaper. Eventually found not guilty—he did not confess and there was no evidence—he said that he seriously feared for his life.

Small wonder that in such circumstances some innocent people confess to crimes they have not committed, and even uphold their confessions when their cases are heard in open court. DNA evidence recently exonerated Toshikazu Sugaya after he spent 17 years in prison for the murder of a child. Asked why he repeated his false confession in open court, Mr. Sugaya said that his biggest fear was that there were police in the courtroom—while the trial is under way most detainees are held in jails operated by the police.

Interrogations are not recorded or videotaped, because police and prosecutors object on a number of grounds, including that it would make it harder for them to develop a “relationship of trust” with their captives. The state of the Japan’s criminal-justice system and the arguments of its government in its defense have caused some UNHRC members to question whether Japan even understands some of the human-rights instruments it has signed.

This must rankle high-level bureaucrats in Tokyo given how much time and resources they devote to promoting the idea of human rights. The Ministry of Justice has an entire bureau devoted to human rights, a national network of local human rights “enlightenment associations,” not to mention two cartoon mascots, Ken Ayumi and Ken Mamoru, a little boy and girl whose names are simplistic puns meaning “advance and protect human rights.”

Japan is, after all, a major supporter of the U.N., the only non-Western member of the Group of Seven leading industrial nations, has the world’s second largest economy after the United States and is famous for its low crime rate and pacifist

constitution. But it is these very attributes that make it easy to overlook a basic truth about Japan: It is an authoritarian state.

Law has always been very top-down in Japan. The country’s penal, civil, procedural and commercial codes all have their origins in an urgent campaign by Japanese leaders to develop a “modern” (i.e. Western-style) legal system after the country was forced open in the 19th century—a campaign that was part of an effort to prevent Japan from being colonized. The next great period of legal reform came with the American occupation after the nation’s defeat in World War II. Although these reforms were aimed at democratization and include the country’s current constitution, it was another top-down imposition of new rules and institutions. The decades of almost uninterrupted one-party bureaucratic rule which followed until the Liberal Democratic Party defeat in the summer 2009 elections may not have done much to change the character of law as something imposed from above.

While Japan has plenty of laws which impose highly detailed duties on citizens and businesses, laws which positively require those in authority to act in a certain way (or not) are far less common. Japanese laws tend to be written in a manner which maximizes bureaucratic freedom of action—as one would expect, given that most of the laws are actually drafted by the bureaucrats themselves.

Indeed, a law’s ostensible purpose is secondary to whether and how it furthers the interest of the bureaucracy that administers it. For example, Japan’s habeas corpus act has come to be used mostly in child-custody litigation. This is because of the procedural tools available to a civil court to remedy parental abduction...



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REVIEWS



**SUPERFUSION: HOW CHINA AND
AMERICA BECAME ONE ECONOMY
AND WHY THE WORLD'S
PROSPERITY DEPENDS ON IT**

by Zachary Karabel

Simon and Schuster, 352 pages, \$26

Reviewed by DENIS MCMAHON

IN FEBRUARY 2007 Niall Ferguson and Moritz Schularick coined the term “Chimerica” in an opinion piece published in *The Wall Street Journal*. The article addressed the economic paradox of the time: how interest rates managed to remain doggedly low in the face of bubbling asset prices and fast-growing corporate earnings around the globe.

While the dominant theory argued it was simply a case of excess liquidity, Mr. Ferguson and Mr. Schularick thought otherwise. The ballooning trade surplus that China was building with the United States had resulted in Beijing amassing huge foreign-exchange reserves—national savings accumulated by the state in its effort to keep a lid on the value of the currency—which were then used to buy U.S. government debt. As a result, Federal Reserve lending rates remained well below what market forces would otherwise dictate, fueling the U.S. consumption binge and stimulating demand for ever cheaper Chinese manufactures. The authors coined Chimerica to describe that recycling of capital which they believed explained the good times in both the world’s largest developed and developing economies.

∞ Mr. McMahon is a Beijing-based reporter for *The Wall Street Journal*.

Zachary Karabel, in his book *Superfusion*, argues that Messrs. Ferguson and Schularick, constrained by the limits of an editorial, oversimplified the degree to which the U.S. and China are economically entangled. Rather than two autonomous economies, they are in fact one “symbiotic system,” a leviathan that must be embraced as a whole. However, it is Mr. Karabel who is most guilty of oversimplification to the extent that the economic relationship he describes is a beast of his own imagining—to wit, a chimera.

Part of the problem is that the book isn’t particularly interested in the dynamics that drive the Chinese side of the relationship. “The issue for America going forward has little to do with China and everything to do with America,” Mr. Karabel wrote recently on his blog. After the financial-crisis, the U.S. is faced with the prospect that it no longer holds title as the world’s sole indispensable nation, a role it may have to share with China as global banker and the source of prosperity for commodity producing countries everywhere. At a time of soul searching to determine America’s new place in the world, Mr. Karabel—whose previous books mainly deal with post World War II domestic U.S. history—prescribes a greater embrace of the People’s Republic, both economically and politically, as the key to a revival of America’s economy.

In practice, this means the U.S. needs to make concessions. It should give the People’s Bank of China a say in how the Federal Reserve sets interest rates; the U.S. carrier force off Taiwan should be withdrawn; and the U.S. should stop harping on about intellectual property protection

and instead abandon it as a lost cause. The pay-off will come in the form of greater market access to China. Why? Because it's the logical extension of *Superfusion*.

The term itself goes undefined for more than 200 pages, but in essence it's the "Chimerica" argument (without Mr. Ferguson's caveats that the dynamic is fundamentally unstable) plus two additional elements: that China's miracle would have been impossible without U.S. investment, and that U.S. firms investing in China have profited immensely from embracing the Chinese consumer.

It's an odd direction to take the argument. There is no doubt that China has benefited from U.S. investment and that American firms have benefited from selling to Chinese consumers, and more of both would be a good thing. But beyond being a major source of demand for Chinese goods, the U.S. plays only a small role in the Chinese economy, particularly compared to the massive amounts of domestically generated investment that has been the real driver of China's growth. Even if Mr. Karabel's proposed concessions were to lift the relative presence of U.S. firms in China, they wouldn't radically alter the structure of an economy that is dominated by its own brands and industries. Nor would it likely lift the economic relationship the U.S. has with China so far above, say, the European Union or Japan to make it any more "superfused" than either of them.

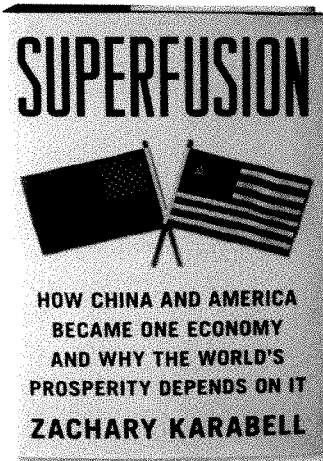
Moreover, the issue going forward has little to do with the U.S. and everything to do with China. While arguing that China is the first country since the U.S.S.R. which the U.S. cannot bully into doing its will, he recognizes that China doesn't succumb easily to flattery either.

The development of China's financial system is instructive. While welcoming foreign expertise—though less so in the wake of the financial crisis—Beijing has always maintained restrictions so as to limit foreign institutions to a marginal role. Further opening will only come when the dominance of China's financial system by local institutions cannot be threatened by foreign interlopers. China's priority is to develop local champions that can challenge the dominance of the American banks in the international arena, not to bind itself irrevocably to the U.S. It's a pattern repeated elsewhere in China's economy. American firms will continue to benefit from doing business in and with China, but the country is not a magic bullet for what ails the U.S. economy.

Chimerica, despite the hokiness of the term, represents a sophisticated argument. As a key element of the global imbalances

that economists warned of in recent years, it needs to be unwound—not built upon—if the two countries are to arrive at a more sustainable economic trajectory. Namely, China needs to stimulate domestic consumption so that it doesn't export so much in savings, and the U.S. needs to save more and consume less.

In a world already overflowing with catchphrases, however, *Superfusion* doesn't bring much to the table. The relationship of the world's two biggest powers is complex, and it doesn't help to boil that relationship down to an all-embracing cliché. The two countries clearly have an interest in working together, but the potential economic benefits that one may gain from the other will never be so great as to trump their myriad other interests.



**THE CLEANEST RACE:
HOW NORTH KOREANS SEE
THEMSELVES—AND WHY IT MATTERS**

by Brian Myers
Melville House Publishing,
272 pages, \$21.95

Reviewed by ANDREI LANKOV

MOST BOOKS ON North Korea focus on the nuclear issue, that never-ending soap opera of the international diplomacy. In the rare cases when North Korean domestic dynamics are taken into account, the authors (most of whom do not speak or read Korean) concentrate on the official pronouncements of the regime.

Brian Myers takes a fresh approach. He largely ignores what the regime tells the outside world about itself, but concentrates instead on what North Koreans themselves are supposed to believe, paying special attention to the North Korean narratives and mass culture, including movies and television shows. North of the DMZ, mass culture is not about entertainment. Rather it is a lighter version of propaganda whose task is to deliver the same message, but in more palatable form.

As in the case in the Soviet Union, Pyongyang uses works of fiction to send signals which cannot be transmitted otherwise due to current political considerations. For example, when North Korean media found a few kind words for South Korean President Kim Dae Jung who visited North Korea in 2000 with impressive amounts of giveaway cash, North Korean novels still ridiculed him as a pathetic double-dealer.

Few people have the training and expertise (and willpower) needed to peruse bor-

ing and voluminous North Korean novels, or spend days watching equally dull North Korean movies and serials. Fortunately Mr. Myers, a student of North Korea for 20 years who is fluent in Korean and a professor at a Korean university, has all these qualities.

The author challenges some established views of North Korean regime. For instance, he believes that the regime is based neither on Stalinism nor Confucianism but rather an extreme nationalism that developed under the influence of Japanese fascism of the 1930s.

North Koreans are taught to see themselves as a unique race bestowed with an unparalleled spiritual purity. This sets them apart from the evil and inherently immoral outsiders, but also makes all contact with the outside world dangerous. Being uniquely pure, spontaneous and naïve—overgrown children, essentially—Koreans have to be guided and protected by a leader.

It is sometimes assumed that the power of the Kim family is based on police brutality and surveillance alone. For those who believe this simplistic picture, it is important to absorb the evidence presented in this book. It makes clear, “the personality cult proceeds from myths about race and its history that cannot but exert strong appeal on the North Korean masses.” Indeed, as I know from my own experience with the North Koreans, this worldview seems to be widely accepted and has a direct impact on North Korean politics.

In the official narrative a special role is played by the United States. The Yankees are an eternal enemy of Korea, never to be redeemed (unlike their Soviet colleagues, the North Korean propagandists never make a distinction between “good” American workers and “bad” American capitalists). It is important that Mr. Myers attracts attention to a fact which is well known to a tiny group of North Korean watchers, but remains widely misperceived outside this

— Mr. Lankov, author of numerous books on the North Korean history and society, is teaching history in Kookmin University, South Korea.

small community: American goodwill gestures are always presented by North Korean propaganda as tributes that terrified Yankees pay to North Korea and its mighty leader. This was the way U.S. food aid was explained in the 1990s, when America was the major provider of aid to the North. *The Cleanest Race* has an impressive number of quotes from the North Korean media and fiction which clearly show that actions which Americans saw as a way to show their good will and generosity are invariably interpreted by the North Korean media as yet another sights of Americans' cowardice and weakness. At all probability, North Korean people accept this explanation.

The same worldview makes it possible to deal with a new challenge: the spread of dangerous knowledge about life in South Korea. For decades, the North Koreans were told that the South was a destitute American colony, but in recent decades information about South Korean prosperity began to filter in, largely because of large illegal migration to China and also because of the spread of the South Korean DVDs, smuggled from China. The old myth of a destitute South, populated by beggars and prostitutes, became unsustainable. But the North Korean propagandists quickly cooked up another story which fits nicely into the official myth. Incidentally, Brian Myers was probably first to notice this change of the official narrative, which is not widely known even among North Korea watchers.

According to the new myth, South Korea is doing relatively well, but its people are deeply unhappy. Being true Koreans, pure and spiritual creatures, they see that their land has been polluted by the foreign dominating presence. So, they dream of being reunited with their brethren in the North who

maintain the quintessential Korean spirit—thanks to the presence of the wise leader, of course. South Koreans might be eating pure rice every day, but they should not be envied, since they live in a land which, to quote a North Korean novel, “degenerated into a whore of America, covered in bruises from where it was kicked black and blue by the American soldiers boots, or decaying from where the American sewage has seeped in.” According to this official narrative, only the presence of the countless U.S. soldiers, assisted by a handful of villainous collaborators, prevents South Koreans from realizing their dream of a happy and pure life under the care of the Dear Leader.

Mr. Myers is skeptical about the hope that goodwill gestures will soften the regime or change its negative view of outsiders. He

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also believes that the new picture of South Korea inoculates the northern populace against the temptations of South Korean consumer culture. However, he points at another potential problem which could make North Koreans restive: the growing understanding that South Koreans do not look at Kim Jong Il's regime with admiration and hope (in most cases, they cannot care less about their unlucky North Korean brethren). As many dictators have learned to their dismay, ideologies of all kinds, including nationalism, are no good substitute for economic success. However, the right propaganda mix can be helpful in postponing the inevitable.

There are few books that can give the world a peek into the Hermit Kingdom. *The Cleanest Race* provides a reason to care about how those in North Korea see themselves and the West. It is possibly the best addition to that small library of books on North Korean ideology.

**A SHADOW FALLS:
IN THE HEART OF JAVA**
by Andrew Beatty

Faber & Faber, 336 pages, £12.99

Reviewed by SADANAND DHUME

A TRUISM ABOUT Java—Indonesia's most populous island and the country's cultural heartland—is its capacity to evoke strong emotion in the professionally dry-eyed visitor. The 19th century colonial administrator Thomas Raffles, the novelist V.S. Naipaul and the anthropologist Clifford Geertz are perhaps the best known examples of foreigners who arrived on the island as detached observers and left as full-blown admirers of Javanese civilization.

Much of the mystique comes from the island's unique form of Islam. Preceded by more than a millennium of Hinduism and Buddhism, Islam, the religion followed by the vast majority of Javanese, is a relatively recent import to this part of the world. It took root in the 15th century, and became dominant across much of the island as late as the 17th.

Spread for the most part by trade rather than conquest, the new faith took its place alongside a welter of older beliefs and practices, complementing them rather than obliterating them as it did in the Middle East and parts of South Asia, places closer to Islam's Arab heartland in both time and space. Only in Java could you call yourself Muslim but seek moral guidance in a *wayang* shadow puppet performance of the Hindu epic the Mahabharata, and believe in a pantheon of pre-Islamic deities such as Dewi Sri, the goddess of the rice paddy and Ratu Kidul, Queen of the South Seas.

∞ Mr. Dhume is a Washington, D.C. and New Delhi-based writer and the author of *My Friend the Fanatic: Travels with a Radical Islamist* (Text Publishing, 2008).

In recent decades, however, Java's famous syncretism—and the tolerance it represents—has begun to give way to an assertive new Islamic orthodoxy. A deeply ingrained relativism that declares “many are the paths to God” has rapidly lost ground to absolutist assertions about the one true faith. Into this social upheaval wades Andrew Beatty, a British anthropologist and expert on Javanese religion. The result is a book both subtle and weighty as well as, that rarest of achievements by an academic, an utterly delightful read.

A Shadow Falls is built around two separate stints in an east Javanese mountain village in the 1990s. In one sense it is a travel book, a look at a land little written about and unfamiliar to most Western readers. But by staying put in a single village on the island's eastern fringe—an area forcibly Islamized as late as the 18th century by the colonial Dutch who were worried about the neighboring independent Hindu island of Bali meddling in their affairs—Mr. Beatty is able to give his account the texture and power of a novel.

What leaps off the page most clearly is the author's deep affection for the people among whom he and his family made their home. He describes a “gentle world” of “Muslims and mystics, of dancers and shadow plays.” He defines Java as “not simply a place, but a state of mind, an ideal, a way of being.” He recreates, in vivid detail, a world of tiger-like guardian spirits and incense-laden feasts, of raucous weddings and transvestite dancers, of a people poor in material possessions but rich in life-affirming spirit. Day-to-day life in the village is laced with quiet humor, almost instinctive good neighborliness, and an easy comfort between men and women. Most of all, it is a place where orthodox Muslims, Hinduized mystics and animistic peasants live together in harmony.

As if on cue, this village idyll is invaded by a humorless new strain of Islamic fun-

damentalism. Its proponents—often men schooled in literalism in the cities, or in religious boarding schools—are unburdened by the faintest shred of self-doubt. They view Islamization as a synonym for progress. Mr. Beatty calls them “despisers of custom,” men whose quest for a stripped down Islam confined to the Koran and the sayings of the Prophet Muhammad is, at least in Java, akin to wanting “trees without branches.” They bring with them a self-conscious idea of what it means to be Muslim. These are people who see “their religious identity as total.” They are watchful and alert to openings; they have a sense that history is on their side. For the first time the village fills with talk of Christian aggression and distant Muslim suffering, of the obligations that come with the faith, with calls for jihad or holy war.

Though Mr. Beatty chronicles, in microcosm, one of Asia’s most profound (and under-reported) stories—an Indicized native civilization giving way to a hollow imitation Arabness—his tone is never portentous. Indeed, one of the book’s great strengths is the casual, untrammelled elegance of the prose. A village house is “as simple as a child’s drawing.” The spirit world appears “as tangible as a breeze on wet skin; as close and elusive as your shadow.” Smoking local cheroots is an experience akin to “being pickled from within.” The sound of a village wedding is “the sound of happiness.”

In the end, Mr. Beatty cannot remain sanguine about Java, or by extension Indonesia. By the time he leaves the village for the second and final time in 1997, “a puritan, ideologically driven Islam had made rapid progress, pushing aside older traditions, disturbing an ancient pact that allowed ancestral spirits and pre-Islamic deities a place among the prayer-houses.” The old ways are under siege, and the poignancy of what has been wrought by puritanism is impossible to miss. “At the end of

the century, to be a Muslim in Java meant, increasingly, to deny your Javanese self, and that meant renouncing everything you had grown up to be, all that connected you with others outside your abstract faith.”

On the face of it, *A Shadow Falls* can be dismissed as a charmingly told tale about an ultimately marginal place on Java’s Hinduized eastern fringe. But the story of Mr. Beatty’s village—the struggle within it between moderate and radical Islam—is in fact the story of Indonesia, the world’s most populous Muslim country. And while Indonesia may be set apart from the rest of the Muslim world by both history and geography, it nonetheless remains central to one of the most pressing questions of our time: Can radical Islamic be reconciled with contemporary notions of pluralism, religious tolerance and minority rights? Anyone interested in answers could do a lot worse than pick up a copy of this splendid book.

JAPAN’S REMILITARISATION

by Christopher W. Hughes

Routledge, 188 pages, \$19.95

Reviewed by MARTIN LAFLAMME

SINCE THE END of the Cold War, pundits have often castigated Japan, the world’s second largest economy and one of Asia’s most dynamic democracies, for its reluctance to play a greater role to help bring stability to the planet’s most troubled spots. Tokyo’s usual response—that the lessons of World War II and a constraining constitution provided firm limits to what it could actually do—rang true for much of the postwar era,

Mr. Laflamme is a Canadian foreign-service officer who served in Japan and Afghanistan. The views presented here are his own.

but has become less and less convincing in recent years. Though Japan took cautious steps forward in an attempt to deflect pressure—for example, deploying a large police force to Cambodia in 1992 and Self-Defense Forces personnel to the Golan Heights after 1996—criticisms still abound.

Such critiques, however, have tended to obscure the long-term trend: starting from an admittedly very low base in the early 1990s, Japan has increased its role in peace and security activities. To put things in perspective, one must remember that Japan deployed its first civilian officer to a United Nations peace-keeping mission only as recently as 1989. Another three years elapsed before the Diet finally adopted its first peacekeeping legislation which permitted the government to deploy civilian or military personnel to mandated U.N. operations provided that a number of conditions were met. In those days, deploying armed forces to help stabilize a war zone was completely out of the question. The most pessimistic believed it would never happen.

In the end, it took Japan only twelve years to get there. True, the thousands of Japanese soldiers sent to Samawah in southern Iraq between 2004 and 2006 faced numerous self-imposed restrictions. They could not, for example, go out at night, nor were they allowed to venture outside of the city without their Dutch, Australian or British escorts. All precautions were taken to minimize the risk of being attacked and, therefore, of having to return fire. It worked: not a single bullet was fired by Japanese soldiers while they were in Iraq. Whether or not Japan's contribution made a real difference on the ground is still being debated, but the question is almost irrelevant. The important fact was that they were deployed at all.

Unfortunately, Christopher W. Hughes' book, *Japan's Remilitarisation*, does not provide enough of this kind of background

information on recent Japanese peace and security activities. Instead, the author, a professor of international politics and Japanese at the University of Warwick, chose to focus on the last five years only. While this recent period was clearly important for Japanese security policy, it does not allow the narrative to find its mooring in the broader context of the past two decades. Mr. Hughes' conclusions are no less valid, but his story would have packed more punch had he provided a richer historical context. Casual readers may thus wish to consider using Mr. Hughes' volume as a companion to, say, Kenneth B. Pyle's *Japan Rising* (PublicAffairs, 2007).

That said, the book is an informative read and a great way to update one's knowledge for those who are already familiar with the topic. To make his case, Mr. Hughes selected a number of indicators and tracked their evolution over the last few years. These include, inter alia, the nature of Japan's weaponry, the number of men and women in uniform, changes in how the forces are organized and managed, budget allocations and the number and types of commitments overseas. Mr. Hughes eventually concludes that "Japan's security policy is undergoing long-term structural change, predisposing it towards a more assertive military stance."

Leaving aside a number of bureaucratic, albeit very meaningful changes—the March 2006 creation of the Joint Staff Office that finally brought Ground, Maritime and Air SDF under a single command and the upgrade of the Japan Defense Agency to full ministerial status in January 2007—some of the most arresting changes Mr. Hughes discusses relate to Japan's acquisition of new equipment to enhance the mobility and global reach of its forces.

While Tokyo's collaboration with Washington on the development of ballistic missile defense has been widely reported in the press, much less has been said about the re-

cent procurement of material such as KC-767 tanker aircraft, which will provide the air force with airborne refueling capability, or Hyuga-class ships, helicopter carriers that also happen to be the largest vessels built by the Maritime SDF since the end of World War II. This kind of gear will make it much easier for Japan to deploy its military on peace-keeping and disaster-relief operations. This is significant given that the latter have in fact constituted a large proportion of the SDF's international activities and led to the deployment of thousands of personnel to places as diverse as Honduras, Turkey, Pakistan and Indonesia.

The growing strength of the Japan Coast Guard is another important trend which Mr. Hughes correctly highlights. Total tonnage of ships expanded by approximately 30% over the last 20 years; many of the JCG's ships are now similar in size or bigger than those used by the Maritime SDF. The JCG even has its own special forces, the Special Security Team, for boarding ships. The growing strength of the JCG partly helps to explain why, since 2004, "Japan has succeeded in significantly pushing forward its defensive and potentially offensive power-projection capabilities."

What does the Japanese public think of all this? There is no doubt that the image of the SDF has improved enormously over the last decade. However, while support for sending Japanese forces on international disaster-relief operations has consistently polled above 60%, anything else remains contentious. Mr. Hughes explains that the Japanese are "growing more tolerant of military and patriotic education, more willing to accept the use of force in defense of the national territory and more supportive of a stronger alliance to support U.S. offensive military power." This is all true, but as the two most controversial missions in recent years have shown—naval refuelling in the Indian Ocean and then the mission in Iraq—the government must be willing to

expend a great deal of political capital in order to keep pushing the envelope. Will Japan's new government be able or willing to continue doing so? Only time can tell.

CHINA'S AFRICAN CHALLENGES

by Sarah Raine

Routledge, 271 pages, \$19.95

Reviewed by JONATHAN MIRSKY

HERE IS A model study, clearly written, comprehensive, informative, and that most rare of qualities, objective. Sarah Raine, a research associate at the International Institute for Strategic Studies, gets to the heart of China's involvement with sub-Saharan Africa: Beijing is unused to international dealing—economic, political and social—at such a distance, and is discovering that its ideological mantra, that China, alone of the big powers, never interferes in the sovereignty of others, rarely works when dealing with well over 40 countries with hugely varying characteristics.

Ms. Raine does not waste time before laying out the historical context. In the 15th century, the Ming Dynasty eunuch, Admiral Zheng He, in the course of his long-distance voyages, twice reached Africa's east coast. This enabled Premier Zhou Enlai and more recently President Hu Jintao to boast, while in Africa, that somehow they were coming home. It is certainly true, Ms. Raine writes, that for the last 20 or so years, successive Chinese leaders have paid many visits to Africa and that new foreign ministers begin their terms with African visits.

Chinese leaders like to point out that China was never involved in the slave

Mr. Mirsky is a London-based free-lance writer and a former East Asia editor of the Times.

trade or in colonial exploitation. During the Cultural Revolution (1966-76) China's aims in Africa were mostly revolutionary, funding, for example, Nelson Mandela's forces in Angola. But now Beijing's aim is trade or, more exactly, the extraction of raw materials, primarily oil and important metals and minerals. While China has increasingly added infrastructural development to its spending in Africa, it has also sold its own manufactured goods to Africans keen on cheap prices, thus leading to the ruin of indigenous manufacturing, such as textiles. Chinese agricultural companies now buy African land to meet rising dietary expectations at home, raising "the prospect of food being exported from one part of a country, while another part faces severe shortages."

Ms. Raine points out that accurate statistics on China's African involvement are hard to come by. Beijing claims that if it revealed the precise nature of its dealings with one country, other countries might feel slighted. Nonetheless, the author clearly lays out the scope of China's reach. As of 2007, there were at least 750,000 Chinese working or living in Africa. While this is a small number compared with the numbers of Chinese living and working in Southeast Asia or the United States, "the impact of Chinese workers is already noticeable across Africa." From \$6.5 billion in 1999, bilateral Chinese-African trade reached \$106.8 billion in 2008, second only to the U.S.-China trade of \$116 billion. China has signed bilateral agreements with 48 of Africa's 53 countries and favorable loan agreements with 22. By 2008 Africa had become China's biggest oil supplier. Deals with countries like the Democratic Republic of Congo have brought China industrially vital metals

like copper and cobalt. In Congo alone, 90% of the state of Katanga's minerals were exported to China, which owned 60 of its 75 processing plants.

Comparisons with other countries and groups, Ms. Raine emphasizes, are vital in such studies. While 16% of Africa's oil exports went to China, 55% went to the U.S. and EU combined. Africa pumped 267,000 barrels of oil per day for China, but Exxon Mobil alone pumped 780,000 barrels per day for the U.S. Although China's bilateral trade with Africa came to over \$100 billion in 2008, in 2007 its bilateral trade with

South Korea amounted to \$160 billion.

Ms. Raine rejects "any suggestion that Sino-African relations can be viewed simply in terms of one giant resource grab," pointing out that China is gradually, often too

slowly, coming to terms with the complexities—for example, dealing with pariah states or states where there are different groups competing for power. She does not shy away from, and condemns, China's sale of weapons to countries such as Sudan and Zimbabwe that use those weapons to crush opposition. But she notes that Western countries also sell arms to Africa, where they are used for distasteful purposes. Unlike Western companies, notably French and Italian, who pay bribes to secure contracts and government cooperation, China is near the bottom in an index of the world's countries most likely to bribe, especially when public works and construction and oil and gas extraction are involved. Ms. Raine observes, too, that Chinese companies, not subject to shareholder or government oversight, can bid lower for African contracts than those in the West, pay Chinese workers in Africa lower wages than indigenous ones, and are

Because of its contributions to African development, China has compelled the West to think more broadly.

relatively unconcerned about trade unions or health and safety considerations.

Beijing counted on African support when it was shunned by Western powers after the Tiananmen Square Massacre. But China, Ms. Raine contends, is gradually recognizing that dealing with pariah states, like Sudan and Zimbabwe, with no consideration for U.N. sanctions or public condemnation, brings Beijing into international disrepute. For the first time since Zheng He sent his navy into international waters to help curb piracy off the East African coast, China now funds and contributes personnel to international peace-keeping forces in Africa.

Because of some of its contributions to African development, China has compelled Western countries to think more broadly. In one of her always appropriate quotes, Ms. Raine cites an African diplomat who remarked that the eyes of Western governments used to “glaze over” at the mention of infrastructural investment. “Now our phones ring with offers of support.”

CHALLENGES TO DEMOCRACY IN INDIA

Edited by Rajesh M. Basrur
Oxford University Press,
299 pages, \$59.95

Reviewed by ABHEEK BHATTACHARYA

BANGALORE-BASED HISTORIAN Ramachandra Guha often tells the story of Neville Maxwell, the Times correspondent who came to India to cover the fourth parliamentary polls in 1967, and reported only despair. “The crisis is upon India,” Maxwell wrote, predicting that the 1967 election was “surely [the] last,” and that “the great experiment of de-

veloping India within a democratic framework has failed.”

Fast forward to the 15th parliamentary polls in 2009, and international media are gushing with praise for the world’s largest exercise in democracy. The same Times now notes, “Indians rightly take pride in a democracy that has survived dictatorship, wars, regional conflicts and the growing threat of religious extremism and sectarian division.” Domestically, that pride is manifest in the metaphor of a “rising India” proclaimed by news commentators or a “shining India” trumpeted by political parties. Yet, the danger seems that such pride will transform into the conceit that any challenge today can inevitably be resolved.

That’s why both India and the world would do well to remember Maxwell’s prognosis, not because it will come true, but because all the challenges faced in 1967 have not yet disappeared. A summary of these challenges to democracy in India, in a volume of essays edited by Rajesh Basrur, is just the bitter medicine the doctor ordered.

Fifteen luminaries, mostly hailing from academia, address different challenges. Some issues, like caste, have plagued India since independence. Some, such as a corrupt bureaucracy, have been strengthening over the years. Then there are some, such as a pan-India Maoist insurgency, feeding off the lack of development, slowly turning into nightmares the nation has hitherto not witnessed. And some, the authors would have it, have sprouted only after India began liberalizing in 1991, as the gap between rich and poor widens.

It’s the last challenge that’s worth examining, because the specter of rising inequality has become a rallying cry in leftist circles against the “neoliberalism” ushered in during the 1990s. Admittedly, often owing to inconclusive statistics, debating whether India’s liberalization has reduced

— Mr. Bhattacharya is a Bombay-based assistant editor of the Views pages at Mint.

poverty generates more heat than light. Still, most of the authors appear to ignore the kind of statistical evidence put forth by Princeton economist Angus Deaton that the 1990s didn't slow the declining poverty rate. They also appear to neglect anecdotal evidence of the gifts that, say, a liberalized telecom sector has provided to all Indians—especially poor farmers. Instead, contributors like political scientist Zoya Hasan maintain that “markets and globalization have a ruthless logic of their own, which leads to the inclusion of some and the exclusion of the majority.”

In India's left-of-center polity, these aren't new arguments. Yet, it would be too easy to dismiss them. If anything, the prevalence of these left-leaning perspectives—which suggests that liberalization has failed to convince smart people across India of its fruits—is another challenge facing India's polity.

So, why is the intellectual consensus in India still against free markets? Academia in any country often lends itself to such woolly-headed thinking, but the terrible state of governance in India doesn't make it easy to embrace liberalization either.

Pratap Bhanu Mehta, president of the Centre for Policy Research in New Delhi, writes in his essay, “The State of Indian Democracy”: “I am a great defender of the market economy for the goods it provides. But nobody has ever made the case that the market acknowledges the equal worth of all individuals ... Although we all talk about equality before the rule of law, the experience of most people is not that with respect to public institutions.”

It's hard to disagree with Mr. Mehta. Imagine a young woman in Jharkhand, an underdeveloped state, who goes to the po-

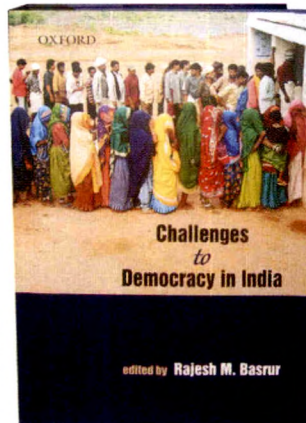
lice station to report the killing of her sisters by moneylenders and is instead asked for sex. Is it so difficult for her to assume that the police cater only to the rich and powerful, or to believe that those whom capitalism apparently benefits—evil moneylenders—ought to pay? No, which is why such a woman—her name is Sabita Kumari—is today an ardent Maoist guerilla committed to overthrowing the Indian state and whatever version of capitalism it supports.

And is India's version of capitalism any different from that in the West? Economist Dilip Nachane, in his essay entitled “The Marketization of the Economy and Democracy,” argues that there is no “universal theoretical basis” for market-friendly policies. Just because such policies worked in the West doesn't

mean they will in India. The point isn't entirely persuasive, but there is a grain of truth to the contention that some local factors must be considered.

For example, it's unclear if the withdrawal of state control in markets involving natural resources has helped, or if it's only been replaced by private monopolies. The concern that capitalism in India may start to resemble a Russia-style oligarchy is one that former chief economist at the International Monetary Fund, Raghuram Rajan, highlighted in 2008.

What is clear, though, is that even if the private sector has now been unshackled, the kind of governance that would have otherwise ensured fairness—Mr. Mehta's “public institutions”—is lacking. An over-extended judiciary and an ill-equipped police force make a mockery of the rule of law, while corrupt politicians and bureaucrats exacerbate the business-politics nexus that angers the disadvantaged



like Ms. Kumari. Suddenly Mr. Nachane's complaint that "pro-market" policies in the absence of efficient markets actually translate into pro-business mercantilism, starts to ring a little true. Corruption makes defense of free markets difficult; Rafael Di Tella at Harvard Business School and Princeton's Robert MacCulloch argue in an earlier paper that corruption in developing countries gives business—and, hence, capitalism—a bad name.

This new challenge amplifies, and is in turn amplified by, India's older challenges. Take *adivasis*, tribal groups outside of the caste system who inhabit resource-rich states like Jharkhand in central India. As Mr. Guha notes in his essay, "Adivasis, Naxalites, and Democracy," these ethnic groups and their development have long been neglected by New Delhi. For them, liberalization now means corporations entering into agreements with the government, often without any consideration for property rights. Little surprise that these areas are where Maoists, or Naxalites, are strongest.

This book is a wake-up call for those who assume the battle for free markets was already won in 1991 and that, since then, India has continued on autopilot where only political compulsions prevent quicker reforms. There are many fights left to fight and, as the antimarket tone of some of the essays suggests, many arguments still in the wings.

The writing in this volume is sometimes dry; perhaps that's because these essays were originally delivered as lectures. However, if the reader is willing to give a patient hearing to some—though not all—of these statist complaints, it will be clear that, without governance reform, economic liberty in India can be strangled in the cradle. And who knows what other liberties will suffer? So, until that next round of reform, the battle for the soul of liberal democracy in India rages on.

**THE LAST EMPRESS:
MADAME CHIANG KAI-SHEK
AND THE BIRTH OF MODERN CHINA**

by Hannah Pakula

Simon and Schuster, 681 pages, \$35

Reviewed by ROBERT GREEN

IN E.M. FORSTER'S *A Passage to India*, a novel set in the late years of the British Raj, a liberal-minded Englishman offers to hold a "bridge party" for a newly arrived Englishwoman who longs for something of the real India. "Not the game," explains the well-intentioned host, "but a party to bridge the gulf between East and West." Meeting real Indians, it turned out, hardly facilitated understanding between the two cultures. When rubbing elbows, Indians and Britons only stoked each other's resentments and prejudices. By the end of the novel, Forster indicates that a true meeting of these different cultures could exist only in the abstract—in the humanist aspirations for a shared dignity based on political equality.

If ever there was a real person who conveyed Forster's sentiment to a live Western audience, it was Madame Chiang Kai-shek, the charismatic wife of China's inarticulate wartime leader. She became, for many Americans, the embodiment of China's struggle for political independence from Imperial Japan. Indeed, in wartime Washington, Madame Chiang acted as a one-woman bridge party, connecting the suffering and sacrifice of two Allied Powers while sparing them both the kind of real contact that routinely soured the goodwill.

Her husband, Generalissimo Chiang Kai-shek, was entirely unsuited to public-relations work. United States civilian and

Mr. Green covers Taiwanese politics for the *Economist Intelligence Unit*.

military officials who had regular contact with him distrusted him, believing he was wasting U.S. funds and squirreling away arms for a later battle with the Chinese Communists while U.S. forces fought the Japanese army. "Vinegar" Joe Stilwell, a U.S. general who commanded Chiang's troops in China, referred to him as "Peanut" or by a series of expletives.

Madame Chiang, who had attended schools in the American South and then earned a degree from Wellesley, was dispatched to Washington to press her husband's case. In *The Last Empress*, Hannah Pakula, also a graduate of Wellesley, ably uncovers the sensation that this glamorous, diminutive figure caused in Washington. Ms. Pakula, who is known for her willingness to haunt archives, pieces together an extraordinary story of America's growing sympathy toward China and a shrewd woman who channeled it to aid China's struggle against Japan.

Mounting a stage which few foreigners have trod, Madame Chiang addressed both houses of the U.S. Congress—and she did it with all the mystery and tragedy of an Anna May Wong character. Dressed in a tight black Chinese gown with a Mandarin collar and high slits, Madame Chiang presented a curious sensation among the Congressmen. "She made a dramatic entrance as she walked down the aisle, surrounded by tall men," recorded then-Speaker of the House Sam Rayburn. "She knew it, for she had a keen sense of the dramatic."

Madame Chiang, both coy and seductive, addressed the U.S. House of Representatives on February 18, 1943, in her fluent English with a slight Southern accent. She began slowly and worked the room into a frenzy of admiration as she appealed to

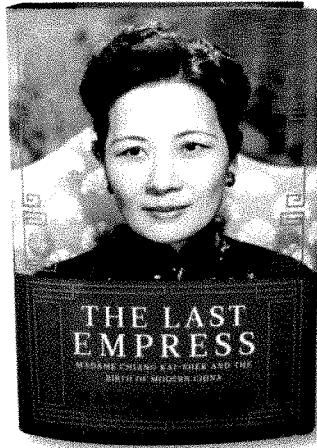
American idealism. "America is not only the cauldron of democracy," she said, "but the incubator of democratic principles." She linked those American ideals to China's lonely struggle for survival against the armies of totalitarian Japan. It was the closest the U.S. Congress had ever come to the atmosphere of an opium den as depicted by Hollywood—a sensory chamber of Orientalist fantasies, complete with the titillation of Chinese suffering and a whiff of sex.

The sensation was not limited to Congress. The address crackled over the radio, and the press tried to capture its emotional power. Ms. Pakula quotes *Vogue* magazine's description of the effect as "a tight-rope tension." Madame Chiang, the author continued, "looked like a steel sword, thinned, beautiful, purposeful." *Fortune* magazine depicted her as "the

most effective ambassador ever to represent a foreign power in the U.S."

The effects of the address were very real and quick in coming. Within a year, the U.S. Congress repealed the Chinese Exclusion Act, a curb on Chinese immigration that had been a source of tension with China since it was adopted in 1882. And Madame Chiang secured more money and war material for Generalissimo Chiang. With her help, the Chinese had become the "good" Asians, and the Japanese slicing through China replaced China as the focus of U.S. fears of a "yellow peril."

Yet the story was far from over. Madame Chiang had her detractors. She constantly irritated President Franklin Roosevelt by courting Republicans and anti-administration personalities, such as Joseph P. Kennedy, to squeeze the Roosevelt administration into sending more arms and money to Chi-



na. To be fair, meeting with the opposition to influence the policy of a foreign nation is simply the way the game is played. But since she was the embodiment of the Chinese people with all the ambivalent implications for the American imagination, her behavior was read as Oriental treachery. Her habit of clapping for servants while she was a guest in the White House did not endear her to egalitarian America either.

Her life's drama would not be complete without a fall as spectacular as her rise. As time wore on, Madame Chiang took on an almost sinister reputation: She was too rich, too interested in power, and too wily a spokeswoman for the authoritarian tendencies of her husband. She reverted to type in the American imagination, denigrated as a "dragon lady," and became increasingly irrelevant.

Even in Taiwan, where her husband's Nationalist government had decamped in 1949, she became an anachronism and a punching bag for political opponents of her husband and his political party. In her final years, she lived a reclusive life in Manhattan and Long Island, occasionally wading back into Taiwanese politics, a villain to her detractors and an occasional inconvenience to her supporters.

Ms. Pakula does a good job of recording Madame Chiang's rise and fall and most notably her effect on the American public. What seems to interest Ms. Pakula is this remarkable woman's interaction with powerful men at the center of history. She has written biographies of other regal women (Queen Marie of Romania and Empress Frederick of Germany) and may well have titled this work "My Latest Empress." But the book's title, no matter how overused as a rubric, doesn't present the problems introduced by the subtitle: "Madame Chiang Kai-shek and the Birth of Modern China."

Ms. Pakula places Madame Chiang in the progression of events, but at no point makes a convincing case for her as anything other

than a bit player—if a highly glamorous and popular one—in the shaping of modern China. It's almost as if the two parts of the subtitle run on different rails. She recounts the major events of early 20th century Chinese history and discusses what Madame Chiang was up to during those years. To support such an ambitious subtitle would require a very different project—reliant on primary sources, a facility with the Chinese language, and a deep understanding of Chinese history.

Yet, there is good claim for a popular biography of Madame Chiang that explores the ambiguity of the American fascination with China and Madame Chiang's effects on U.S.-China relations. Ms. Pakula seems so close to exploring this angle—if only she would lend her voice to her work. But she seems determined to chronicle Madame Chiang's life by giving equal emphasis to each event, substituting chronology for the marvelous freedom of an author. The result is a disconnect between the events she records and their significance. If Madame Chiang acted as a bridge between two wartime allies, Ms. Pakula seems reluctant to interpret for the reader the meaning of this one-woman bridge party. One is left with pages of well-documented facts but also a sense of that gulf in crosscultural understanding that so troubled E.M. Forster.

**ANCESTORS: THE STORY OF CHINA
TOLD THROUGH THE LIVES OF AN
EXTRAORDINARY FAMILY**

by Frank Ching
Rider, 541 pages, £9.99

Reviewed by STEVE TSANG

THOUGH CHINA HAS not and is not about to save the world from economic turmoil, business leaders, captains of industry and government lead-

ers think and read of China more regularly than ever before. The Chinese government may have imposed clear limits to what it will do globally, but this does not stop the rest of the world getting excited about China. The People's Republic is simply "hot" at the moment. But can we rely on books written by instant China experts after one or a few visits to truly understand the governance culture of this new land of hope?

The publication of an enlarged edition of Frank Ching's endearing history of his extended family, the Qin of Wuxi, provides a delightful avenue for an interested lay person to get to know China and its history. Though first published in 1988 at the height of an earlier China fever, its republication with two new chapters is welcome and timely. It provides a reliable and highly readable introduction to the educated elite of China. But it is also highly valuable for scholars trained in the social sciences and even in the modern history of China as they can gain a good sense of the flow and forces of China's history in the last millennium.

What Mr. Ching (he uses an alternate romanization of the Qin name) has written is not just a family or clan history but a tour de force of the cyclical rise and fall of China and its upper class since the Song dynasty (11th century) through the changing fortunes of an educated gentry family in the prosperous eastern city of Wuxi. The sheer power of Confucian culture to maintain continuity is shocking—through the rise, decay, fall and replacement of some five dynasties, from the Han Chinese Song Dynasty, via the Mongolian Yuan Dynasty, the Han Chinese Ming Dynasty, the Manchu Qing Dynasty, and the postimperial era including the present People's Republic. In many ways the ups and downs and

revivals of the Qin family mirrored those of China as a whole.

The Qins survived and prospered in basically the same way through the Song and Ming dynasties, as well as two long spells of alien rule—nearly a century under the Mongols and three centuries under the Manchus. However, their basic outlook on life, aspirations and sense of purpose remained remarkably similar. For a literati or gentry family, the ways of officialdom and forces for social cohesion persisted from Song right up to the end of the Qing dynasty in 1911.

Indeed, the social obligation a branch of the Qin clan forged with a non-Qin family for looking after a Qin tomb from the Ming Dynasty survived until Mao Zedong launched the Great Proletariat Cultural Revolution in the 1960s. After political strife made it impossible for the non-Qin family to fulfil its centuries-old obligation, the tomb was left to slowly decay. It was only in the economic reform era, however, when it was finally destroyed, as the land was required for a new car park.

The greatest break that China saw in the last millennium happened not when China came under alien rule or gave up traditional dynastic rule to republicanism in the early 20th century or even when the "Communist revolution" succeeded in 1949. It happened afterwards—after the Communist Party seized power and completed building its Leninist-Maoist political edifice. The effectiveness of the Communist Party's control and its willingness to require China to pay whatever price it took in order to meet its ambitions can find no parallel in the millennium surveyed by Mr. Ching. The existence of the Leninist instruments of control in the form of the Communist Party is critical to what its leadership did and, to a lesser extent, can still do.

Among Mr. Ching's ancestors, two served at different times as keeper of the emperor's diary and were thus in a position

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to know how the inner circle functioned at the height of Chinese (and Manchu) power. Reviewing their work and life one is left in no doubt that the kind of political movements and persecution Mao Zedong launched against his former comrades in the Communist Party and the people of China as a whole, be it the Cultural Revolution or the Great Leap Forward, were unthinkable prior to 1949. The origins for the madness and exceptional brutality that took place in the Maoist era could not and should not be attributed to the Chinese culture or tradition.

By contrast, reading the life and work and the ups and downs of Mr. Ching's ancestors one cannot but notice the restraint and accountability with which government power was exercised in the imperial era. The positive and accurate portrait of how the highly able and conscientious Manchu Emperor Kangxi performed his duties and was admired by his Han officialdom will not surprise professional historians of China, but it should remind modern Chinese nationalists that narrow-minded nationalism is not ingrained in Chinese civilization. China's Confucian gentry readily embraced Manchu emperors like Kangxi because they were among the best Confucian monarchs China had in a millennium.

The descriptions of the work of other ancestors of Mr. Ching also illustrate graphically the way how traditional justice was administered in China—how a

Confucian code of due process was valued and upheld. Modern rule of law it was not. But arbitrary administration of justice was not part of the Confucian tradition. The intricate procedures and requirements for reviewing cases of capital punishment that culminated in an annual review by the emperor himself in the autumn were impressive in a premodern and authoritarian context. However, such a system could not prevail without an able and conscientious emperor at the throne. Ironically such emperors were in very short supply except during the alien Manchu Qing Dynasty.

What the book does not relate is the life and work of the bulk of China's population—peasants, artisans, traders, menial workers, foot soldiers and domestic servants. Mr. Ching's ancestors had the good fortune to continue essentially as a family of gentry and scholar-officials. By using their lives as the focus for explaining Chinese society and history, the book does not tell us how the overwhelming majority of Chinese lived, worked and died.

Mr. Ching's *Ancestors* should be read for insights into how the upper echelon of the traditional Chinese world lived and worked. It is most valuable in giving a sense of how the Confucian elite approached life, career, matters of principle, politics and family relations. Perhaps it can even provide a useful benchmark to measure if the Communist Party administration under General Secretary Hu Jintao is true to China's Confucian tradition. ■

THE COMING CRESCENDO OF CHINA

by Nick Frisch

PIANO NOTES DRIFT up the stairs in a Beijing branch of the Liu Shih Kun Piano School. Perched near the East Glorious Gate of the Forbidden City, the school does a brisk business educating the children of the affluent. In a practice room downstairs, a little girl is flanked by two adults—her teacher and her mother, who watches the proceedings intently. Lessons cost about 150 yuan (\$22) per hour, and upright pianos sell for more than 13,000 yuan, substantial sums even for upper or middle-class families.

Still, they come *en masse* with their children. “Almost every student is accompanied here by the parents,” explains Ba Shan, the young woman manning the reception desk at the school founded by one of China’s first famous pianists. “Almost all of them have pianos at home, too.”

Between several established chains like Liu Shih Kun, thousands of individual schools and uncountable private teachers, there are still no firm figures on the actual number of music students in China. In an interview with the New York Times this year, Jindong Cai, a conductor and professor at Stanford University, estimated that there are 38 million students studying piano alone. A 2007 estimate put violin students at 10 million. And the trend is clearly upward.

When the Philadelphia Orchestra visited the People’s Republic of China in 1973, it was a constrained affair by the standards

of most concert tours. The political suitability of Beethoven’s fifth symphony became the center of a proxy battle between Premier Zhou Enlai and Mao Zedong’s wife, Jiang Qing.

In 1979, when violin virtuoso Isaac Stern visited China—a trip that was immortalized in the film *From Mao to Mozart*—there were glimmers of change. Mao’s generation was dying and the Gang of Four’s death-grip on culture had been broken. Stern left encouraged, if not awestruck. “They had an old-fashioned technical approach towards the manner in which they played but with an almost instant understanding ... once they were shown what might be done,” he remarked.

As the “reform and opening” policy unfolded over the subsequent decades, Chinese musicians have enjoyed increasing prominence in the West: the lucrative celebrity of Tan Dun and Lang Lang; the Oscar-winning soundtrack of “Crouching Tiger, Hidden Dragon”; the appointment of Zhang Xian as the New York Philharmonic’s assistant conductor; and composer Bright Sheng’s success, first as Leonard Bernstein’s protégé and then as the winner of a MacArthur “genius” grant. And the list goes on.

Of the incoming class of 160 students at the Curtis School of Music in Philadelphia, 14 are from the People’s Republic—more than from any other country. One Curtis alumnus, Zhang Haochen, recently became the first Chinese and the youngest entrant ever to win first prize at the Van Cliburn Piano Competition in Texas.

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New York's highest temples of musical culture have featured prominent Chinese-themed undertakings. In 2006, the Metropolitan Opera took the enormous gamble of commissioning Tan Dun's "The First Emperor," with Plácido Domingo starring as the tyrannical Qin Shihuang. By the time Carnegie Hall's "Ancient Paths, Modern Voices" festival got underway this past October, China's ascendant cachet was undeniable. Millions of dollars as well as Carnegie's prestige were invested in promoting all kinds of Chinese music and culture for a whole three weeks of entertainment. (Full disclosure: this author wrote for Carnegie's official festival blog.)

Most importantly, at home, China is building the material infrastructure and human capital it needs to sustain and broaden its role on the global classical music scene. While prestige and talent are hard to quantify, there are a number of concrete indicators that may herald changes in the elite world of musical high culture presently dominated by European norms and faces.

The piano industry is a useful short-hand gauge of the tangible economic basis behind China's classical music boom. While the P.R.C. is a prodigious producer of strings and woodwinds, many are essentially high-grade handicrafts made in local workshops, and most are exported. In 2008, China made roughly 88% of the string instruments and 80% of the wind instruments sold in the West. Piano production, by contrast, has high barriers to entry and requires enormous fixed-capital investment, including specialized machinery. The instrument's large size and the limited number of manufacturing sites make pianos easier to track: Only 21% of Chinese-made pianos were exported in 2008.

A single piano purchased by an institution or household can signify several or even dozens of musicians, particularly since it remains a standard tool even for students of other instruments, conducting or theory.

The instrument's range and ability to adapt nearly every piece of the classical repertoire make it important not just as a solo instrument, but as an accompaniment to choirs, soloists, lectures, and myriad other types of musical activity.

Whether due to market saturation or the dent in demand for high-end luxury goods prompted by the financial crisis, China's production and import of grand pianos have plummeted since 2007. However, production and import figures for the upright piano, a true middle-class musical tool suited to cramped urban housing, have both continued to rise during the same period. In 2008, about 300,000 pianos were sold on China's domestic market, roughly 95% of them uprights.

"For now, buyers with enough money prefer foreign brands," explains Wang Wei, a musical entrepreneur in his early 30s with premature salt-and-pepper hair and a sardonic mien. Mr. Wang's store is one of 28 piano shops clustered on Shanghai's Jinling East Road. Once an exotic curio, the instrument is now an emblem of the rising middle class.

Besides Japanese, Korean and Western brands, Mr. Wang has a healthy trade in Chinese pianos. The Pearl River Group in Guangzhou boasts the world's largest piano factory and accounts for 25% of the domestically produced piano market. For those without the money for a Steinway or even a Chinese-made Yamaha, China's flagship Pearl River brand is the preferred domestic alternative. Founded in 1956, it remains a state-owned firm; but like many of its privately owned peers, it employs a large, semiskilled labor force drawn from China's vast interior and relies on technology-sharing from joint ventures with overseas firms. Japanese and South Korean equipment seems to be helping; many of the specialized machines are purpose-built for the numerous finely engineered moving parts that a modern piano requires. The management

at Pearl River is eager to show off the factory to visitors. The factory's showroom holds every imaginable make of piano, while its photo gallery hints at the political prestige tied to the classical music industry: Jiang Zemin is shown on a visit, while Lang Lang and Li Yundi are prominently shown playing the company product.

Political patronage for a capital-intensive, high-prestige musical activity is most visible in the funds lavished on orchestras and concert halls. The link, however, is less direct than piano sales; families make huge sacrifices to buy a piano and parents ensure that they are used. City officials, by contrast, will enjoy their banquets and limousines regardless of how well or frequently concert halls are utilized.

Beijing's National Center for the Performing Arts, Shanghai's Grand Theater, Performing Arts Center and Concert Hall, and giant venues in Hangzhou, Wuhan, Tianjin, Guangzhou and even in the provincial Zhengzhou all have several points in common: a huge price tag, strong official attention and acoustics that could charitably be described as uneven. Even where engineering isn't a problem, management suffers: Shenzhen spent lavishly to bring in the acoustical engineer from Los Angeles's Disney Hall for its own venue, only to let the space languish empty for several years as squabbling bureaucratic factions prevented the finalization of any concert schedule. While critics contend these spaces represent a serious misallocation of funds that may have better been directed towards music education, it is also true that China will not be taken seriously as a major musical power unless it has several Carnegie-sized

venues to show off its talent—that is, if the talent ever develops.

The picture is variable, but encouraging; major orchestras have rebounded from the ravages of the Cultural Revolution, changing auditions and rescinding lifelong tenure. Yu Long—dubbed “China's Karajan” in the Western press—made waves when he held auditions for the Shanghai Symphony in the West and hired foreigners.

China's brass and woodwinds sections have long been notoriously weak. But this,



too, is rapidly improving: Shanghai native Han Xiaoming mastered the French horn in Europe and America, earning a strong reputation as a protégé of Seiji Ozawa. His Chinese students now enjoy appointments in European orchestras. Wang Liang of Qingdao is now an oboist for the New York Philharmonic;

his prominent success with an instrument besides piano and violin will likely broaden the range of popular instruments for beginner musicians. Such role models are essential for a nation eager to project cultural confidence.

Major corporations' cozy relationships with government have played out in the musical sphere in ways that the *chaebol* and *zaibatsu* could not have imagined; companies, sometimes under political pressure, buy blocks of ultimately unused tickets, leaving “sold out” shows with dozens of seats empty. At this fall's Beijing Music Festival “Nestlé Night” of Verdi, the supposedly sold-out show had numerous empty seats—a few Nestlé executives showed up, but other tickets were given to employees or associates who didn't care, or perhaps were simply never handed out. (Bemused

concertgoers got free samples of Nestlé coffee and chocolate at the exits.)

But just as the cash thrown at venues does not necessarily represent a benign interest in classical music, numbers alone do not indicate the quality of instruction. There is more and better hardware: violins, pianos and concert halls. The software is lacking, according to Sam Matthews, a cellist, teacher, and leader of a Shanghai youth orchestra. "Music is all about excellence," he says, "and the incentive structure here does not promote that." In a country where many music-teaching positions lie within government-run institutions, Mr. Matthews says the education system is plagued with the same governance issues as other Chinese institutions. "Corruption, the abuse of positions, lack of oversight and quality control, excessive deference to authority, lack of imagination or critical thought," he ticks off the problems, citing Shanghai—supposedly among the most advanced cities for music—as symptomatic of the difficulties. "Teachers are incurious and not exposed enough to the outside world."

Students learn solo showpieces without any sustained training in how to play in chamber ensembles or orchestras, and spots in conservatories can be bought. In the rest of the world Italian terms are standard, but "some of my students don't even know what *diminuendo* means," Mr. Matthews says. The mentality pervading instrumental training was diagnosed by violinist Tan Shuzhen early on. In 1979, he explained to the *From Mao to Mozart* film crew that Chinese students have a utilitarian approach: "They think that if they can play something difficult and fast they can get a good job."

What about Zhang Haochen, Li Yundi, Wang Liang, Han Xiaoming, Tan Dun, Chen Qigang, Bright Sheng, and all the other world-class musicians who have appeared almost out of nowhere in the short span of three decades? "They all had education

overseas," Mr. Matthews says. So are there any prospects for systemic change? "Not immediately. It's extremely frustrating."

As with the "Asian Tigers," cultural and economic modernization are the twin imperatives underlying China's classical music boom. Comparisons to Japan, South Korea and Taiwan are valid—to a point. Each of these places developed an export-oriented manufacturing economy based around cheap labor, starting from simple products and moving up the value chain to sophisticated goods and brands. In these societies, classical music is seen as a respectable activity for the newly affluent and their children. Their musicians all faced the same early criticism: technically competent but lacking authentic musical insight. Often, musical and cultural education lags behind the initial investments of capital and labor.

Thus, perhaps in spite of educational and organizational challenges, China's musical successes may signal an even brighter future, particularly given the diaspora factor. Just as the overseas Chinese in Taiwan, Hong Kong and other locations have been investing their reserves of capital in the mainland, they are now donating their reserves of cultural talent to their homeland in ways that the Koreans and Japanese cannot match. Finally, there is China's own gravitational pull. Chinese culture has always attracted global fascination, and it is now matched by domestic capacity to satisfy the demand.

At the end of the 19th century, the United States looked less like a cultural powerhouse and more like a follower of Europe's aesthetic lead. But with economic growth came cultural infrastructure and capacity. America's music schools, concert halls, orchestras and composers, who have Americanized European technique, now compete on equal footing with their European counterparts. China is not there yet—but that day is no longer so hard to imagine. ■

RETROSPECTIVE

ASIA THROUGH THE LENS OF 'FEER'

by Alice Lloyd George

IT WAS THE beginning of a new era for the region, and the FAR EASTERN ECONOMIC REVIEW was a new magazine to report it. In 1946, Asia was still in upheaval; the Pacific War had wrought devastation, a wave of decolonization was sweeping across the region, and China was mired in ideological struggle and civil war. Rural poverty stretched from Korea to Malaya, and in a pre-Asean, pre-APEC and pre-globalization world, few could have imagined that the region's fragmented nations would come together to form an economic powerhouse with integrated supply chains.

But the REVIEW's founders had a vision of Asia and its potential. In the inaugural issue, Editor Eric Halpern claimed that Hong Kong was one of the world's leading hubs and would make the best location for his new business magazine: "It is an international

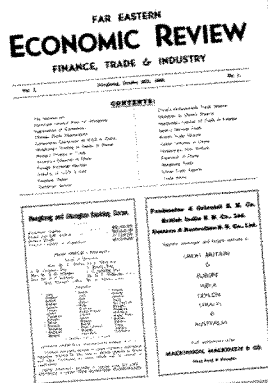
meeting place of the first order, a 'civilization exchange' between West and East," he wrote. For the next 63 years, from its vantage point on the tip of China, the REVIEW chronicled local news and trends, evolving from a publication with detailed analysis of economic and financial data to a

successful, lively current-affairs magazine covering politics, culture and business.

As Asia changed, the REVIEW changed with it. After Halpern, Dick Wilson took over as editor in chief from 1958-64, and the magazine's coverage expanded to include regional affairs beyond Hong Kong and China. Wilson grew the publication, recruiting correspondents and assistant editors, changing layout, building government and diplomatic contacts, and contributing so many articles himself that he wrote under three pseudonyms. In his six years of tenure he quadrupled its circulation and trebled its staff, though profits remained "elusive."

Under Derek Davies, editor from 1964-89, the magazine's influential role was solidified, and it experienced a golden 25 years. Davies was known for his jocular "Traveller's Tales" column, in which he mused on current events and gossip, recounted his escapades, and poked gentle fun at mistranslations of English ("Eat Vietnamese For a Delicate Meal!"). During this heyday in the 1970s and 1980s, Morgan Chua served as art director, enlivening the REVIEW's front covers with his arresting and provocative images. The publication continued to make its name through its revealing accounts of Hong Kong's investment scandals and complex business dealings, covering the collapse of the Carrian Group in 1983 and the misdeeds of the Overseas Trust Bank in 1985. Its weekly "Shroff" page was a staple, exposing insider dealing and corporate mischief.

Much has changed since Halpern wrote



Ms. Lloyd George is a Princeton-in-Asia fellow at the REVIEW.

that opening editorial statement. Hong Kong is no longer Asia's main hub; the rise of neighboring countries has drawn focus to many other regional capitals such as Beijing and Shanghai. In 1946, the REVIEW had described China as; "a country with proud national traditions, but 'backward' by modern economic standards and militarily weak ... a population mostly poverty-stricken, mainly rural and largely illiterate." By contrast, it is impossible today to escape from the discourse and catchphrases on the rise of China, the world's new "superpower."

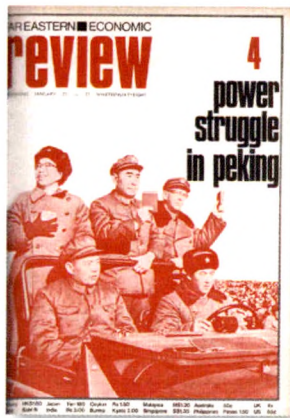
The REVIEW charted China's dramatic transition over several decades, from the pre-1979 cloak-and-dagger reporting to the last 30 years of rapid growth. The magazine pioneered independent journalism, often providing exclusive information on developments in China such as the Cultural Revolution despite the closed borders. In 1989, Robert Delfs was in Beijing for the death of Hu Yaobang and the subsequent pro-democracy demonstrations by students. Just six weeks before the Tiananmen Square massacre he wrote, presciently: "by broadening their protest the students risk a tough response by security authorities ... " In the weeks running up to the clash, Mr. Delfs analyzed the government's efforts to contain and co-opt the movement, and the deepening divisions between pro-reform and conservative elements of the leadership.

The REVIEW also gained a reputation from its critical reporting on the Vietnam War. Calcutta-born Nayan Chanda recounted the battlefield debacles, the retreat of the ARVN, the advance of the communists, and the fall of Saigon. In 1975, Mr. Chanda was the last reporter left in the presidential palace, furiously tapping

out a dispatch when North Vietnamese tanks broke through the palace gates and unplugged the telex, famously cutting him off mid sentence. He broke the news to the world that the palace had been taken.

Mr. Chanda later rose to be editor of the REVIEW. Indeed, the publication provided a frontline forum for many talented correspondents, such as Philip Bowring, David Bonavia, Bertil Lintner and Michael Vatikiotis. Under Davies's tenure, roughly half the contributors were Asian and half expatriate. A number of these veterans went on to prominent positions in other fields; Gary Coull founded brokerage house CLSA, former cultural editor Ian Buruma became a well-known author, T.J.S. George and Mike O'Neill launched rival magazine Asiaweek, and Ho Kwon Ping took the helm of his family's business and turned it into the global hotel brand Banyan Tree.

It is no wonder that the REVIEW's savvy reporters developed a reputation for knowing the countries that they worked in inside out, and for establishing strong local connections. Eric Halpern's founding philosophy held true: "at any time and in every case unbiased and dispassionate, factual and balanced reporting will be our aim and policy." Commitment to a free media was the REVIEW's ideology, and it made its name speaking truth to power, as evidenced by the long-standing dispute with the Singaporean government, where the publication was repeatedly banned—even as it was being



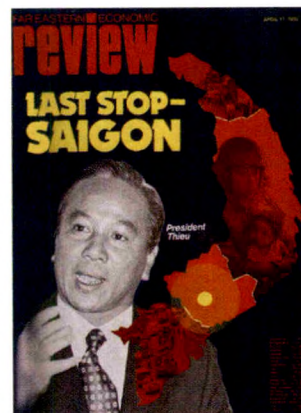
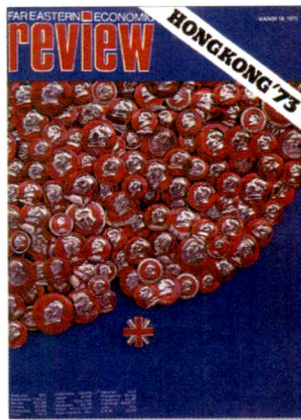
pirated by the government. The REVIEW also earned respect for its stance during the Cultural Revolution riots in Hong Kong in 1967, when it was highly critical of the government but stood up against threats and taunts from the left. Over the years a number of correspondents were tried, expelled, accused of sedition and generally harassed. They were even jailed in China, Malaysia and Singapore. In 1980, Salamat Ali, the REVIEW's Pakistan correspondent, was sentenced to a year's hard labor by a military court for reporting on Baluchi unrest and democratic rights in Pakistan.

One of the magazine's most stalwart and celebrated reporters was Nate Thayer, whose 1997 cover story became an international sensation. Mr. Thayer spent years on the trail of the elusive dictator Pol Pot, making dozens of trips through the landmine-strewn jungle in Cambodia's resistance-controlled zones. After a total of 16 hospitalizations for cerebral malaria, several fractured bones and shrapnel wounds, he emerged triumphant. Mr. Thayer, then 37, found Pol Pot in his jungle hideout, and was the first and only journalist to witness the fall of the Khmer Rouge leader at his trial. There, "slumped in a simple wooden chair, grasping a long bamboo cane and a rattan fan, an anguished old man, frail and struggling to maintain his dignity, was watching his life vision crumble in utter, final defeat." Several months later, in October, Mr. Thayer had a second exclusive—this time an interview with the former leader. The REVIEW had already led the field in establishing the true iden-

tity of Pol Pot. In a 1976 cover story, Mr. Chanda revealed that Pol Pot was in fact Saloth Sar, a Paris-educated intellectual who had disappeared from Phnom Penh a decade earlier. In March of the following year this was confirmed.

Other intrepid correspondents included John McBeth, who covered the oppressive Suharto regime in Indonesia and continued reporting even after losing a leg to disease. Ron Gluckman, masquerading as a German film buff from Hong Kong, crashed the 2005 Pyongyang International Film Festival. In April 2002, the REVIEW exposed Kim Jong Il's slave-labor camps in North Korea, providing satellite photographs of the prisons for the first time and interviewing an escapee who was a former camp guard. And in 2001, David Lague predicted that a deadly flu was ready to strike, and that the pandemic would originate in southern China. As it turned out, a more novel killer, SARS, hit two years later, but the dynamics of the contagion were the same.

Besides the scoops, the REVIEW has interviewed some of the most prominent statesmen and moguls, from Colin Powell to Kofi Annan, from Thaksin Shinawatra to Bill Gates. But it has also provided a voice for the marginalized. Over the years, the magazine has interviewed or profiled numerous activists: writer Pramodya Ananta Toer, who imagined his quartet of novels while in an Indonesian gulag for 14 years; Nobel laureate dissident-turned-president of South Korea, Kim Dae Jung; Anwar Ibrahim, the former deputy prime



minister who was beaten and jailed in Malaysia; Joshua Jeyaretnam, the lawyer and activist who challenged the Singapore government; Aung San Suu Kyi, Burma's pro-democracy leader who was detained by the military junta for six years; and the late Corazon Aquino, who helped topple Marcos' authoritarian regime and secure democracy in the Philippines.

In 1987, the REVIEW came under the full control of Dow Jones, and two years later Davies was succeeded by Philip Bowring, who presided until 1992 before handing the reins to Gordon Crovitz. The magazine then entered another golden era as economies boomed and advertising was plentiful. The reporting staff continued to expand, and having become known for covering the fight against communism in Southeast Asia, the REVIEW switched back to an emphasis on industry and commerce.

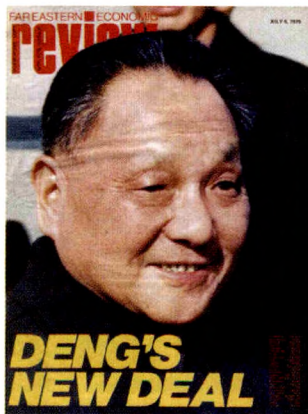
After 1997, however, regional English-language publications ran into the perfect storm. First came the Asian Financial Crisis, then the bursting of the tech bubble, 9/11 and SARS. The cumulative effect of these was devastating, but worse was a secular trend that was quietly gaining momentum: Advertisers were switching their spending out of regional magazines into local publications. Dwindling revenues prompted Time Warner to close Asiaweek in 2001. Having been the pioneer, by the end the REVIEW was left standing alone again.

Searching for a viable business model, the magazine re-launched as a monthly journal of opinion and analysis in 2004, and

continued to publish hard-hitting analysis that won it numerous gongs from the Society of Publishers in Asia and Human Rights Press Awards. Among the prize-winning stories was Simon Montlake's 2007 account of how the military was behind the extrajudicial killings of left-wing activists in the Philippines, Mary Beth Markee's essay on the repression of Tibetan activists and refugees by Nepalese authorities in 2008, and Hugo Restall's 2006 interview with Chee Soon Juan, leader of Singapore's opposition.

Approaching 2010, we face a very different Asia from the one Eric Halpern described. China and India are on track to become the world's largest economies; over 60% of the planet's population resides in Asia, which also claims 32% of global economic output. Some have argued that we are entering a new era of history, one that marks the end of Western domination and the arrival of the Asian century. For the loyal Asiaphile readers of the REVIEW, this is good news indeed.

However, as the tiger economies continue to grow, education levels improve and the middle-classes of the region expand, Asian readers are demanding new ways of getting information. For 63 years the REVIEW helped fill the regional English-language news niche. But in the current era, with local and online publications springing up, there are new voices to satisfy the appetite for information. Eric Halpern famously left his Burmese *longyi* draped over his chair for his successor Dick Wilson in 1946; now the REVIEW will do the same. ■



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The screenshot shows the top section of the CHINA REAL TIME REPORT website. At the top, it says "THE WALL STREET JOURNAL Digital Network" and "WSJ.com". Below this, it displays the date "Monday, November 16, 2009" and the time "As of 9:44 AM 00". The main header "CHINA REAL TIME REPORT" is prominently displayed in red and black text, with the Chinese characters "中国实时报" next to it. Below the header, there are navigation links for "Markets", "Economy", "Law", "Technology", "Environment", and "Culture". A "HOT TOPICS" section lists "GDP", "Consumers", "Internet", "PRC at 60", "Economic Data", "Autos", and "Obama". The main content area features two articles. The first article is titled "Questions for Obama" and discusses what Obama will be asked when he sits down with Chinese youth at Monday's town hall meeting in Shanghai. The second article is titled "Rights Groups Flood Obama With Advice On China Trip" and discusses the season for human rights activists to issue statements about China. The website also includes a search bar, a "Log In" link, and a "Register For Free" link. The AECOM logo is visible in the bottom right corner.

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Questions for Obama

What will Obama be asked when he sits down with Chinese youth at Monday's town hall meeting in Shanghai?

Xinhua reports that Obama will be choosing from 3,200 questions submitted by Chinese Internet users on a special Xinhua forum that the Chinese news agency set up on Friday.

The questions (in Chinese here) run the gamut from the meaning of happiness to Michelle Obama's wardrobe, though many focused on serious matters of economics and geo-politics, for example:»

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JASON DEAN

Rights Groups Flood Obama With Advice On China Trip

'Tis the season for human rights activists to issue statements about China. With President Obama arriving in Shanghai late Sunday to start his first state visit here, a host of groups are trying to use the trip to call attention to issues they say get short shrift in U.S.-China relations.

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INTERNATIONAL RELATIONS

A Teachable Moment in U.S.-India Relations

by Vishakha N. Desai



AP Photo / Jon Healey
Indian Prime Minister Manmohan Singh addresses the U.S. business community to discuss the importance of bilateral trade and investment at the U.S. Chamber of Commerce in Washington, D.C., Nov. 22.

New York - India's Prime Minister Manmohan Singh arrives in Washington this week for the first state visit of the Obama administration, prompting policy and media circles in the U.S. and India alike to buzz with the question: "What will be the big drop-dead announcement this time?"
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Chic Is Out, Cheap Is In

Japan's economy once again is growing, albeit slowly, but the road back from the nation's longest recession since World War II is rocky. With the job market still unsettled and the yen dropping in value, weary consumers are not returning to their old shopping habits. A different breed of Japanese consumer has emerged in the wake of the global financial meltdown and may be here to stay. Once known for their mass consumption of luxury goods, they now are getting a reputation as avid discount shoppers. As traditional department store revenues plunge, discount retailers are enjoying a surge in popularity. Take Wal-Mart. For the first time since it entered Japan seven years ago through its Seiyu subsidiary, the world's largest retailer expects to generate a profit in Japan in 2009.
Posted November 23, 2009
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Arm Rest Wars

I immediately regretted giving the man in the seat next to me my newspaper because it had something I wanted to read more about, the latest installment in the Chip Tiao scandal. Chip Tiao had written a piece for Hong Kong Magazine calling the Philippines "a nation of servants." The weird thing about the Chip Tiao incident was that it had been intended by the Hong Kong writer as satire, not so much against Filipinos as against the insidious attitudes of China in its dispute with the Philippines over the Spratly Islands as well as the Hong Kong Chinese attitude of superiority towards Filipinos.
Posted November 4, 2009
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The Looming Crisis in U.S.-Japan Relations

As U.S. President Barack Obama visits Tokyo on the first stop of his inaugural trip to Asia, he may unknowingly step into a looming crisis in the alliance with Japan. But it is not the alliance crisis he may be led to expect. Much of the punditry in the media would have us believe that Japan and the United States were on the verge of a breakup over where to relocate 60 Marine helicopters. Yet durable alliances are based on common interests, not empty disagreements over means. As difficult an issue as the relocation of Futenma Marine Air Station has been, however, the salient question is whether next year's half-century celebration of the 1960 Mutual Security Treaty will mark the end of the alliance as we know it or the beginning of the alliance we both need for the 21st century.
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